



MANAGEMENT'S DISCUSSION AND ANALYSIS

WHAT YOU WILL FIND IN THIS REPORT

An Integrated Presentation

This Performance and Accountability Report (PAR) is an integrated presentation of SBA's programmatic performance, financial accountability and managerial effectiveness in FY2004. More than a collection of individual reports on these topics, the SBA PAR links each of the Agency's Long-Term Objectives to those items in each of these separate reports that describe issues relevant to the achievement of the objective. In other words, the reader is able to quickly find all of the information in the entire PAR document that relates to a single Long-Term Objective, thereby facilitating an understanding of the various steps necessary to evaluate the Agency's ability to efficiently and effectively achieve a desired result.

Another important aspect of this PAR as an integrated presentation is the incorporation of cost data into the Agency and program results tables. This integration of budget and performance information enables the reader to better understand the relationship between what SBA spends and what it accomplishes, in terms of outcomes as well as outputs.

A third way in which this PAR is integrated is the manner in which performance information is organized under each goal. Rather than being presented on just a program-by-program basis, the primary divisions are along the lines of the three major types of assistance that SBA provides to its clients—financial, technical and procurement. This approach allows the reader to understand how the Agency meets a particular goal by providing a certain type of service—financial assistance, for example—that might be contributed to in various ways by more than one SBA program.

The PAR's integration is achieved across the four major sections into which this report is divided:

- Management's Discussion and Analysis
- Performance Report
- Financial Report
- Appendices

Discussion and Analysis

The Management's Discussion and Analysis (MD&A) section of the PAR provides a high-level overview of important aspects of SBA's performance during the past year. Included are several tables, charts and narratives that address the Agency's organization, activities and funding. A major element of the MD&A is a summary of SBA's FY2004 results for each of the Strategic Goals and the supporting Long-Term Objectives and Outcome Measures, as defined in the 2003-2008 SBA Strategic Plan.

This summary, under the heading Results and Challenges, is organized around SBA's Strategic Goals and Long-Term Objectives (LTOs). Under each Long-Term Objective are the key results (in terms of measurable outcomes) achieved, from an Agency-wide perspective, during the year, as well as cost-related performance data that brings greater transparency to the relationship between dollars and results. This information is presented in the form of a table, followed by a narrative discussion, and summarizes a more extensive presentation found in the subsequent Performance Report section that includes more program-specific information.

Results and Challenges also includes an important feature that significantly enhances the PAR's value to the reader as a tool for bringing greater transparency to the Agency's operations and issues affecting its performance. Following the performance summary for each Long-Term Objective are cross-references to various reports relating to financial reporting and management issues. These include the FY2003 Independent Auditor's report, FY2003 SBA Financial Statements, Office of the Inspector General (OIG) reports, Government Accountability Office (GAO) reports, OIG-identified management challenges, and any Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) evaluations that may have occurred. These reports are referenced where they address issues that may significantly impact the ability of SBA to achieve that particular objective. In this way, the MD&A is not duplicative of the Performance Report



and, instead, uses its higher-level performance summary as a framework for ensuring a single, fully integrated document that directly links key aspects of the other reports to their impact on specific Agency and program results.

At the end of the MD&A section are tables and narrative relating to the financial management of SBA programs.

Performance Report

The Performance Report section provides a more detailed presentation of what SBA and its programs and support functions accomplished during the year in furtherance of the Agency's Strategic Goals and Long-Term Objectives. While these goals and objectives are generalized statements of intended results, they have been cascaded down into Outcome Measures that are specific, measurable indicators that define success in achieving SBA's desired impact upon small business. Below these outcomes are Output Measures, tracking the level of effort necessary to lead to the intended results. The Performance Report shows for each Long-Term Objective several information tables indicating what was planned and achieved during FY2004 regarding outcomes and outputs by SBA and its programs. It should be noted here that, while for many of the outcomes SBA has indicated the actual targets are To Be Determined (TBD), the Agency has contracted with the Urban Institute for assistance that will define the target numbers.

The FY2004 planned and actual results are shown in comparison with past performance and future targets. The FY2004 PAR also introduces a new column to these tables, showing how far the Agency has progressed toward achieving the long-term goal on a percentage basis. This is intended to help the reader assess the likelihood that the desired result will be reached as planned. An important feature of these tables is the inclusion of cost-related performance information both from an Agency-wide perspective and a program perspective basis. This information brings to the reader a clearer understanding of the costs associated with achieving various outcomes and outputs. It should be noted in that regard that this year SBA reached a significant milestone in effective budget and performance integration by successfully reconciling its financial statements with

these performance costs. This was an important step in enhancing operational transparency.

Important aspects of Agency and program performance are described in the narratives that follow the tables. Under several of the objectives that deal with SBA's broadest efforts to assist small business clients, the tables and descriptions of activities, outputs, and outcomes are organized around the three major types of services the Agency provides: financial assistance, technical assistance and procurement assistance. This approach to organizing the performance tables and narratives better enables the reader to understand how SBA often uses several different programs in a common effort to achieve a particular beneficial impact on small business.

Where the measure is new for this year or the data is not yet available, this is indicated. Where a previous performance indicator has been or will be discontinued, this is also indicated and its historical values are reported. If the discontinued indicator constituted a performance goal in the FY2004 Annual Performance Plan, then its value for FY2004 is reported. "N/A" (Not applicable) applies to indicators that were not yet established for the year in question, were discontinued, or were not measured. In addition, N/A values in the cost section apply to instances in which denominator values are zero (resulting in zero cost estimates) and to indicators for which SBA does not develop goals, such as program cost estimates for FY2006, 2007, and FY2003-2008.

Although still focused on presenting an integrated, Agency-wide view of performance, the tables in this section provide a detailed view of the contribution and related costs of each of the contributing programs. Charts are used to show the cost-related performance for each objective.

A modification was made this year to one of the Long-Term Objectives under Strategic Goal One. LTO 1.6 was revised to reflect the fact that, while SBA cannot ensure greater access by small businesses to contracts issued by other Federal agencies, it may nonetheless set as a goal increasing its own effectiveness in assisting those other agencies in reaching their own contracting goals.



Information about discontinued performance indicators may be found in Appendix 10.

Financial Report

The Financial Report section of the PAR contains several reports mandated by the statute, including the Independent Auditor's Reports, the SBA CFO's reply and the SBA Financial Statements for FY2004.

Appendices

The PAR includes several appendices that provide the following supporting information:

Appendix 1:

Regional Performance Information and Success Stories

Appendix 1 contains summary performance information for SBA's regions broken down by state. Also to demonstrate how SBA's own success is tied to the success of its small business customers, this appendix contains several success stories highlighting the programs conducted by the Agency through its national delivery system of district offices.

Appendix 2:

Selected FY2004 Office of the Inspector General (OIG) Audits And Reports

Appendix 2 is a compendium of summaries of relevant OIG management reports. This section is organized by SBA Long-Term Objective with each OIG report summary shown under the objective whose achievement the issues in the report would most likely affect. (These summaries are also cross-referenced in the MD&A section under the relevant objectives.)

Appendix 3:

Office of the Inspector General Audit Follow-Up

Appendix 3 summarizes the follow-up actions taken by SBA as a result of OIG findings.

Appendix 4:

Government Accountability Office (GAO) Recommendations

Appendix 4 is a summary of recommendations from GAO

reports and the SBA responses. This section is organized by SBA Long-Term Objective with each GAO recommendation shown under the objective whose achievement the recommendation would most likely affect. (These summaries are also cross-referenced in the MD&A section under the relevant objectives.)

Appendix 5:

Office of the Inspector General Reports On the Most Serious Management Challenges

Appendix 5 is a compendium of SBA's most serious management challenges, as identified by the OIG, along with the status of the Agency's efforts to resolve them. Under each challenge is an identification of the SBA Long-Term Objective whose achievement is most affected. (These challenges are also cross-referenced in the MD&A section under the relevant objectives.)

Appendix 6:

Office of Management and Budget (OMB) Program Assessment Rating Tool

Appendix 6 is a program-by-program explanation of SBA's actions to address issues raised by OMB's PART evaluations..

Appendix 7:

SBA Web Links

Appendix 7 provides a variety of Web links to SBA reference materials.

Appendix 8:

SBA Acronyms

Appendix 8 provides a listing and definitions of SBA-associated acronyms.

Appendix 9:

SBA Programs and Offices

Appendix 9 provides a description of SBA Programs and Offices.

Appendix 10:

Discontinued Performance Indicators

Appendix 10 lists the performance indicators that have been discontinued for this reporting year.



SBA MISSION

The mission of the SBA is to maintain and to strengthen the Nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters.

SBA GOALS

To fulfill its mission, the SBA has three programmatic Strategic Goals that broadly define what the Agency and its programs are trying to accomplish. A fourth Strategic Goal defines the responsibility of the Agency's executive leadership and support functions to help accomplish the programmatic goals. Each Strategic Goal is further defined by several Long-Term Objectives, which describe, in general terms, the results SBA needs to achieve in order to meet its Strategic Goals. These goals and objectives are:

Strategic Goal 1: Improve the economic environment for small businesses

- Long-Term Objective 1.1. Minimize the regulatory burden on small business through effective advocacy.
- Long-Term Objective 1.2. Ensure equity and fairness in the Federal regulatory enforcement process.
- Long-Term Objective 1.3. Minimize the taxation burden on small business through effective advocacy.
- Long-Term Objective 1.4. Minimize the health care cost burden on small business through effective advocacy.
- Long-Term Objective 1.5. Simplify the interaction between small businesses and the Federal government through the use of the Internet and information technology.
- Long-Term Objective 1.6. Increase the effectiveness of Federal agencies to provide opportunities for small business.

Strategic Goal 2: Increase small business success by bridging competitive opportunity gaps facing entrepreneurs¹

- Long-Term Objective 2.1. Increase the positive impact of SBA assistance upon the number of and success of small business start-ups.
- Long-Term Objective 2.2. Maximize the sustainability and growth of existing small businesses assisted by SBA.
- Long-Term Objective 2.3. Significantly increase successful small business ownership within segments of society facing competitive opportunity gaps.

Strategic Goal 3: Restore homes and businesses affected by disaster

- Long-Term Objective 3.1. Maximize the timely restoration of businesses and homes following disaster.²
- Long-Term Objective 3.2. Provide courteous and professional customer service.

Strategic Goal 4: Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services

- Long-Term Objective 4.1. SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support systems, so as to maximize the Agency's mission performance through a comprehensive performance management system.
- Long-Term Objective 4.2. SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of its customers.

¹ Competitive opportunity gaps exist when market or other conditions prevent small businesses from taking advantage of private financing or from competing for work contracts.

² The former Long-Term Objective 3.2 ("Provide courteous and professional service") has been consolidated with LTO 3.1 as of FY2004.



- Long-Term Objective 4.3. Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability.
- Long-Term Objective 4.4. Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.

- Long-Term Objective 4.5. Procurement and contracting services will be planned and managed to support SBA program management and the achievement of the Agency's goals.

In order to achieve these results, all of the SBA's program and support responsibilities have aligned their activities and budget resources with one or more of the Agency's goals and objectives. The table **Costs to Achieve Results by Program Area** on the next page illustrates the linkage between program and support responsibilities, Agency's goals and objectives, and budgetary resources.



Costs to Achieve Results By Program Area

FY2004 Resources Used								
(Amounts in Thousands)								
Long-Term Objective	Total	CA ³	ED ⁴	GCBD ⁵	Business Gateway	Office of Advocacy	National Ombudsman	Disaster Assistance
Strategic Goal 1. Improve the economic environment for small businesses.								
Long-Term Objective 1.1: Minimize the regulatory burden on small businesses through effective advocacy	\$9,360	N/A	N/A	N/A	N/A	\$9,360	N/A	N/A
Long-Term Objective 1.2: Ensure equity and fairness in the Federal regulatory enforcement process.	\$1,469	N/A	N/A	N/A	N/A	N/A	\$1,469	N/A
Long-Term Objective 1.3: Minimize the taxation burden on small business through effective advocacy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long-Term Objective 1.4: Minimize the health care cost burden on small business through effective advocacy.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long-Term Objective 1.5: Simplify the interaction between small businesses and the Federal government through the use of the Internet and information technology.	\$2,603	N/A	N/A	N/A	\$2,603	N/A	N/A	N/A
Long-Term Objective 1.6: Increase the opportunities for small businesses to receive open and fair access to Federal contracts	\$36,296	FY2004	N/A	\$36,296	N/A	N/A	N/A	N/A
Total Strategic Goal 1	\$49,728	N/A	N/A	\$36,296	\$2,603	\$9,360	\$1,469	N/A
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.								
Long-Term Objective 2.1: Increase the positive impact of SBA assistance upon the number and success of small business start-ups.	\$178,624	\$64,679	\$113,945	N/A	N/A	N/A	N/A	N/A
Long-Term Objective 2.2: Maximize the sustainability and growth of existing small businesses assisted by SBA.	\$298,299	\$188,683	\$65,937	\$43,678	N/A	N/A	N/A	N/A
Long-Term Objective 2.3: Significantly increase successful small business ownership within segments of society facing competitive opportunity gaps. ⁶	\$236,434	\$114,655	\$79,476	\$42,302	N/A	N/A	N/A	N/A
Total Strategic Goal 2	\$476,923	\$253,362	\$179,882	\$43,678	N/A	N/A	N/A	N/A

³ Office of Capital Access

⁴ Office of Entrepreneurial Development

⁵ Office of Government Contracting and Business Development

⁶ To avoid double-counting, ITO 2.3 costs, a subgroup of ITO 2.2 costs, are not added to Strategic Goal 2 totals.



Costs to Achieve Results By Program Area

FY2004 Resources Used								
(Amounts in Thousands)								
Long-Term Objective	Total	CA	ED	GCBD	Business Gateway	Office of Advocacy	National Ombudsman	Disaster Assistance
Strategic Goal 3: Restore homes and businesses affected by disaster								
Long-Term Objective 3.1 : Restoration - Help Restore Homes and Businesses Affected by Disaster	\$216,313	N/A	N/A	N/A	N/A	N/A	N/A	\$216,313
Long-Term Objective 3.2: Customer Service-Provide courteous and professional customer service.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Strategic Goal 3	\$216,313	N/A	N/A	N/A	N/A	N/A	N/A	\$216,313
Subtotal Strategic Goals 1 - 3	\$742,965 ⁷	\$253,362	\$179,882	\$79,974	\$2,603	\$9,360	\$1,469	\$216,313
Strategic Goal 4: Ensure that all SBA programs operate at maximum efficiency and effectiveness.								
General Planning and Management	\$25,967	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Information Technology Management	\$24,503	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Procurement and Administration	\$11,300	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Improved Financial Performance	\$8,302	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Budget and Performance Integration	\$2,705	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Competitive Sourcing	\$366	N/A	N/A	N/A	N/A	N/A	N/A	N/A
E-Government	\$3,029	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Human Capital Mgmt and Policy	\$5,927	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Strategic Goal 4 ⁸	\$82,099	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Strategic Goals	\$742,965	N/A	N/A	N/A	N/A	N/A	N/A	N/A

⁷ Includes FY2004 values of \$953 for National Women's Business Council and \$3,167 for Veteran's Business Corporation.

⁸ Overhead, which represents Strategic Goal 4, is included in Strategic Goals 1 through 3. To avoid double-counting, Strategic Goal 4 has not been included in Total Strategic Goals.



Cost to Achieve Results by Program Area														
Strategic Goal 4 Detailed Breakdown														
FY2004 Resources Used														
	Total	Adminis- trator	Office of the Chief Financial Officer	Chief In- formation Officer	Com- munity & Public Liaison	Congres- sional & Legislative Affairs ⁹	EEO & CRC	General Counsel	Hearings & Appeals	M&A Immediate Office ¹⁰	Adminis- tration	Human Capital Manage- ment	Strategic Alliances	Agency- Wide ¹¹
Grand Total	\$82,099	3,665	9,805	24,784	2,828	1,339	1,937	9,749	1,174	1,323	10,030	5,158	285	10,022
General Planning & Manage- ment	\$25,967	3,665	N/A	N/A	2,828	1,339	1,937	9,594	1,174	693	168	N/A	285	4,284
Information Technology Manage- ment	\$24,503	N/A	N/A	22,366	N/A	N/A	N/A	70	N/A	182	N/A	N/A	N/A	1,885
Procu- re- ment and Adminis- tration	\$11,300	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	9,821	N/A	N/A	1,479
Improved Financial Perfor- mance	\$8,302	N/A	7,321	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	981
Budget & Perfor- mance Integration	\$2,705	N/A	2,456	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	249
Competi- tive Sourc- ing	\$366	N/A	N/A	5	N/A	N/A	N/A	31	N/A	189	14	84	N/A	44
E-Gov	\$3,029	N/A	28	2,413	N/A	N/A	N/A	56	N/A	259	27	N/A	N/A	247
Human Capital Manage- ment & Policy	\$5,927	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5,074	N/A	853

⁹ Office of Equal Employment Opportunity and Civil Rights Compliance

¹⁰ Management & Administration Immediate Office

¹¹ Agency-wide costs include: Worker's Compensation, Unemployment Compensation, Transit Subsidy, Printing, Relocation, Credit Reports, Centralized Training, Reasonable Accommodations, Telecommunications, Head-
quarter Postage, Field Postage, Credit Cards, Interest Charges, Fedex, Oracle, Judgment Fund,



Reconciliation with Costs in the Financial Statements

The SBA reports its costs to accomplish the Agency's Strategic Goals along with the performance results for these goals. These "strategic" costs include an estimate of the credit subsidy costs for loan approvals made in the SBA's Business and Disaster programs *during FY2004*. The SBA, in order to minimize the complexity of its performance results and related costs, has not included the additional costs determined during FY2004 to be applicable to *prior year* loan approvals. These costs, although

they were very substantial during FY2004, applied mostly to the SBA's Participating Security and Disaster programs. Also, the SBA has not included in its "strategic" costs the cost of grants made for improvements in localities around the country, and other costs that are not related to the SBA's strategic objectives. A reconciliation of the costs reported in this report with "budgetary obligations incurred" in the Combined Statement of Budgetary Resources in this report follows.

	FY2004 (\$ millions)
Costs for SBA Strategic Goals	743
Prior year credit subsidy re-estimates – Business	2,434
Prior year credit subsidy re-estimates – Disaster	1,128
Non "strategic" costs not included (grants, IG, SDB, VBC)	73
Business Loan administrative costs – Program Fund costs	127
Disaster Loan administrative costs – Program Fund costs	114
Other program expense (SBG, Loan Liquidating funds)	21
Total Budgetary Obligations Incurred	4,640



FINANCIAL AND PERFORMANCE INTEGRATION

SBA has taken several important steps to integrate performance information with financial information. These steps are aimed at enabling a better understanding and assessment of the efficiency and cost effectiveness of Agency programs and operations. These steps are as follows:

- 1) *Implementing Activity-Based Costing.* Generally speaking, efficiency is the ratio of input (measured in dollars) to output, while cost effectiveness is the ratio of input (dollars) to outcome. Because dollars are consumed as SBA engages in activities, for the past several years the Agency has been implementing a system of activity-based costing (ABC). The ABC model is based on a survey that is conducted periodically and is used by SBA to identify the full costs of programs and activities. In this way, financial information is associated with activities, which, in turn, is the basis for linking dollars spent with outputs accomplished. In the future, SBA intends to link "dollars spent" to "outcomes" achieved in a manner that permits the tracking of cost effectiveness.
- 2) *Providing Full Cost Tables.* SBA has developed cost tables related to the programs that support each of the Agency's Long-Term Objectives and has provided them in the Performance Report section of recent PARs. Using the program activity cost information generated by the Agency's ABC system, SBA is able to link this type of financial information to the relevant programs that support each strategic plan objective.
- 3) *Reconciling Finances and Performance Costs.* FY2004 was the first time SBA was able to better ensure the accuracy of its cost-related performance data by reconciling that information with its financial statements. Achieving this important reconciliation means that the Agency has strengthened the integration of its financial and performance information.
- 4) *Linking Performance Results with Financial Issues.* In recent years, SBA's PAR has been providing cross-references between performance results and related issues identified in the financial reports. For example, the Management Discussion and Analysis section of this report indicates that on page 310 of the FY2003 PAR, Issue 1 in Note 17 of the Financial Statement describes an item that impacts SBA's performance in achieving its intended outcomes under Long-Term Objective 3.1. In the future, SBA hopes to cross-reference performance results to the financial issues identified in the most recent financial report.
- 5) *Alignment of Performance Indicators with the Strategic Plan.* SBA's program offices have taken on the process of verifying the alignment of their performance indicators with the Agency's Strategic Plan. Program offices engaged in a process of validation of the performance measures currently in use. Data validation was defined as determining if the performance indicator actually measured the goal or objective of interest and was a useful guide to policy making decisions. Additionally, as part of FY2004 data collection, program offices were asked to complete a "Validation of Data Used in Performance Measure" table for each performance indicator that would be used in the FY2004 Performance and Accountability Report. This table represented an opportunity for managers to more formally evaluate the validity, accuracy, and completeness of their data. As a result of these activities, Long-Term Objective 1.6 (LTO) was modified to better reflect the functions being performed by the programs contributing to it and to capturing previously unreported accomplishments. During FY2005, the Urban Institute will conduct an evaluation of programs contributing to the achievement of Strategic Goal 2.



6) *Training of SBA's Employees.* A factor in the process of budget and performance integration has been the training of program offices. For example, offices received training in the development of annual performance plans for incorporation into the Agency's FY2006 budget. A key emphasis of the training was on how to improve the quality of the office's submission, so that it would satisfy the intent of Government Performance and Results Act.

7) *Linking Employees Performance Standards to the Strategic Plan.* In order to ensure Agency-wide participation in the strategic plan, annual performance appraisals for all employees have included an element rating them on how well they contributed to the Agency's achievement of its goals.

SBA will continue improving the effectiveness of each of these steps. The Agency's intention is to develop a process that enables it to show clearly in each PAR the linkage between dollars and activities, activities and outputs, and outputs and outcomes. In doing so, it intends also to be able to identify the unit cost of each activity and the unit cost of each result (output and perhaps outcome). This information will provide SBA with a level of operational transparency that will greatly facilitate effective resource allocation, as well as strengthen both programmatic and managerial accountability.

THE ORGANIZATION OF SBA

SBA is an organization with a nationwide purview. SBA's Headquarters building is located in Washington, DC, while its business products and services are delivered with the help of 10 regional offices, 68 district offices and a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands and Guam.

SBA Headquarters

SBA Headquarters is divided into key functional areas:

- The Office of Capital Access (OCA) is responsible for small business program loans, lender oversight, the investment company program, the surety bond program and international trade.
- The Office of Government Contracting and Business Development (GC/BD) is responsible for assistance to small business in obtaining Federal procurement opportunities. GC/BD manages the Government-wide prime and subcontracting programs for small businesses, the Small Business Technology Transfer, 8(a) Business Development, Service-Disabled Veteran-Owned Small Business and Women-Owned Small Business Programs. It also sets size standards for small businesses.
- The Office of Entrepreneurial Development (ED) provides management and business development assistance through a network of over 1,500 resource partner locations.
- The Office of Management and Administration (M&A) directs human resources, contracting and purchases, grants management and Agency administration.
- Disaster programs are delivered nationwide and to U.S. territories out of four area offices and, to a large extent, use temporary staff hired on location to respond to emergencies. The area offices report to and receive guidance from Headquarters. The Office of Disaster Assistance has offices located in Niagara Falls, Atlanta, Fort Worth and Sacramento.
- The Office of Advocacy is an independent voice for small business within the Federal Government. It advances the views, concerns, and interests of

small business before Congress, the White House, Federal agencies, Federal courts, and state policy makers. Economic research, policy analyses and small business outreach help identify issues of concern.

- The National Ombudsman receives complaints and comments from small business concerns and acts as a "trouble shooter" between them and Federal agencies. Small business comments are forwarded to Federal agencies for high level reviews and Federal agencies are requested to consider the fairness of their actions.
- The Office of Veterans Business Development is dedicated to serving the veteran entrepreneur by formulating, executing and promoting policies and programs of the Agency that provide assistance to veterans seeking to start and develop small businesses.
- The Office of Field Operations represents the SBA field offices at Headquarters, and among its duties is to provide policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives. Each of SBA's ten regional offices maintains oversight responsibility and ensures that the goals and objectives of the Agency are met on a consistent basis by the district offices within its boundaries.

District Offices

Fiscal Year (FY) 2004 brought with it a strong validation of SBA field offices' very significant mission – helping to start and grow America's small businesses. SBA district office employees work to accomplish the SBA mission by providing quality service to the small business community and by working with state and local economic development resource partners. SBA district offices are the principal and primary point of delivery for most SBA programs and services to America's entrepreneurs and dreamers.

As clear lines of communication expanded and a strong sense of direction emerged, the SBA field offices achieved their performance goals. In FY2004, SBA backed 74,825



Section 7(a) loans totaling \$12.5 billion to small businesses, and 8,168 loans worth \$3.9 billion under the Section 504, or Certified Development Company, program. It is the SBA field employees who are the catalysts and the conduits to educate and to avail communities of this SBA access to capital tools.

The SBA transformed into a more efficient organization by consolidating backroom functions to free up employees to work hand in hand with other economic development leaders. SBA field offices established “Alternate Work Sites” (AWS) which geographically dispersed its workforce to penetrate markets and communities that have been previously underserved. This transformation has enabled SBA field office employees to become more knowledgeable about their communities and uniquely able to serve their diverse and ever changing needs.

Under the new structure, the field offices are managing their resources more strategically and focusing their efforts on specific segments of their community who face opportunity gaps. As a result in FY2004, SBA field offices oversaw volume records in loans to women, minorities, and veterans. A successful illustration is in Region VIII where SBA field employees have made a special effort to advocate for rural small businesses. Several strategies were successfully employed to create a positive impact on businesses in rural America, including numerous roundtable meetings with small business owners, Chambers of Commerce and local economic development officials to discuss how SBA can better serve their communities. As a direct result, 7(a) loans to rural businesses were up a full 15% over the last year. This upward trend is occurring in every target market.

SBA staff in the field are passionate and committed to stimulating small business expansion. In FY2004, collectively and individually, SBA field employees’ success was measured by:

1. The net number of SBA loans guaranteed—more than 82,000 totaling \$15 billion¹²
2. The number of businesses assisted by SBA—more than 5 million;
3. The number of small businesses receiving technical assistance—more than 2.1 million.

The table “SBA Activity by Program Type – Regions” gives an overall picture of the activities of the Agency within the 10 regions. It documents the millions of dollars injected into the regional economies because of SBA’s assistance, and in the technical assistance provided to small businesses to ensure their successful creation and growth. Details on the activities of the district offices that compose the regions can be found in Appendix 1.

Field employees, under the leadership of the Office of Field Operations through the Regional Administrators, continued to stay focused on the mission and to measure success with simple efficiency in FY2004. Each new job created by the small businesses SBA assisted meant a vision completed and increased stability for the economy and the Nation.

More than 1,300 SBA field office employees served the country’s small business community, where they shared their enthusiasm in assisting individuals in realizing their American Dream.

On the next page you can find the SBA Activity by Program Type Table and SBA Regional Map.

¹² These are net numbers.



SBA Activity by Program Type and Region

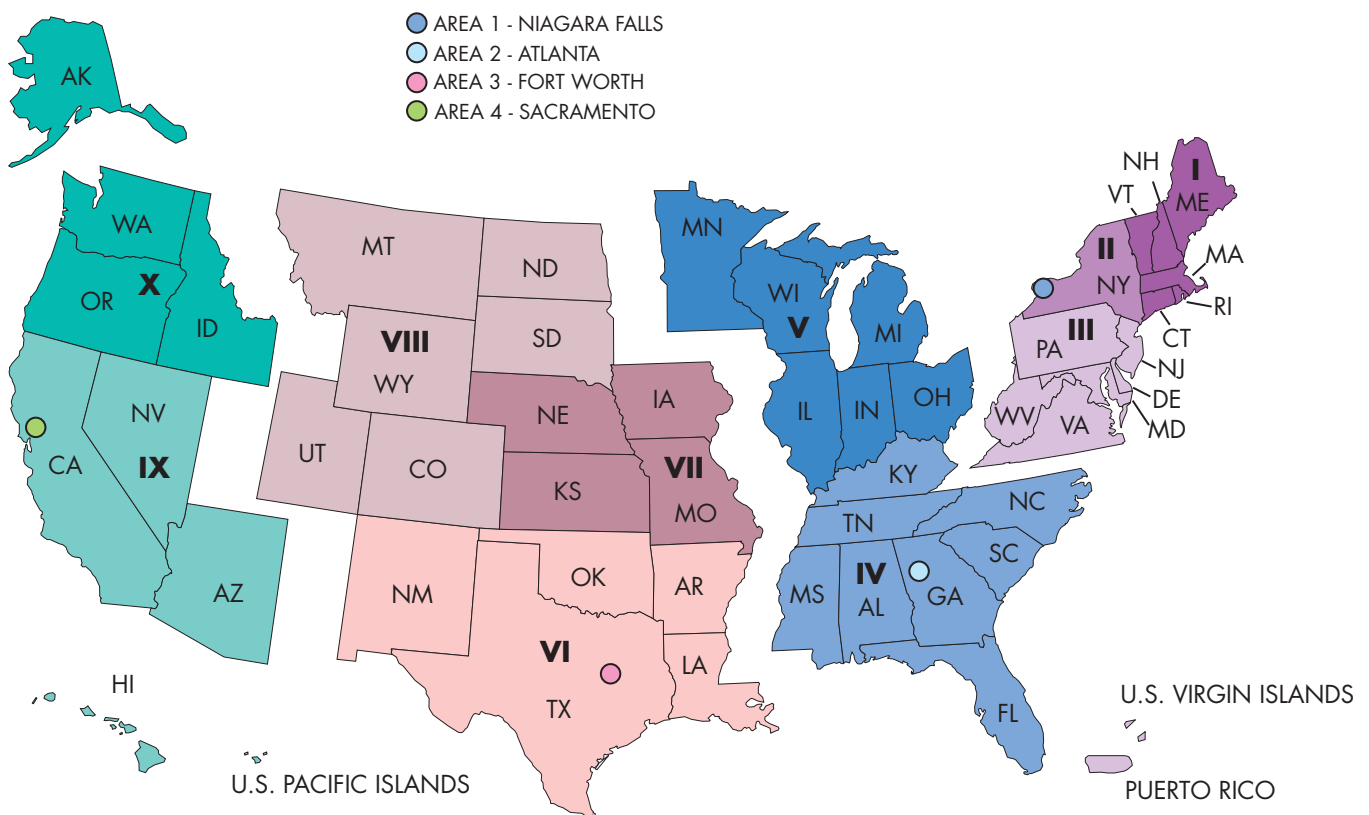
Region	Approved 7(a) and 504 loans (millions of dollars) ^{13, 14}		SBIC financings (millions of dollars) ¹³		Federal Procurement contracts (millions of dollars)		Clients counseled/trained in SBDC, SCORE, WBC, BIC ¹⁵	
	FY2003	FY2004	FY2003	FY2004	FY2002	FY2003	FY2003	FY2004
Region I	750	930	249	259	14,395	19,053	100,310	82,672
Region II	1,215	1,466	484	527	9,655	12,916	174,854	156,221
Region III	926	1,199	325	257	55,423	63,916	139,734	141,782
Region IV	1,967	2,451	290	309	35,196	39,825	272,964	215,389
Region V	2,163	2,554	325	277	17,234	20,898	210,721	215,310
Region VI	1,600	1,885	163	275	30,088	40,472	201,424	208,725
Region VII	546	677	24	75	6,412	10,907	70,659	83,342
Region VIII	812	985	89	129	7,142	8,734	86,681	73,703
Region IX	3,730	4,597	428	643	41,701	46,992	254,996	244,500
Region X	713	828	91	84	8,548	10,496	81,629	86,486
Total	14,422	17,572	2,468	2,835	225,794	272,353	1,593,972	1,508,130

¹³ Data derived from Loan Accounting Tracking System.

¹⁴ Data obtained from Federal Procurement Data System.

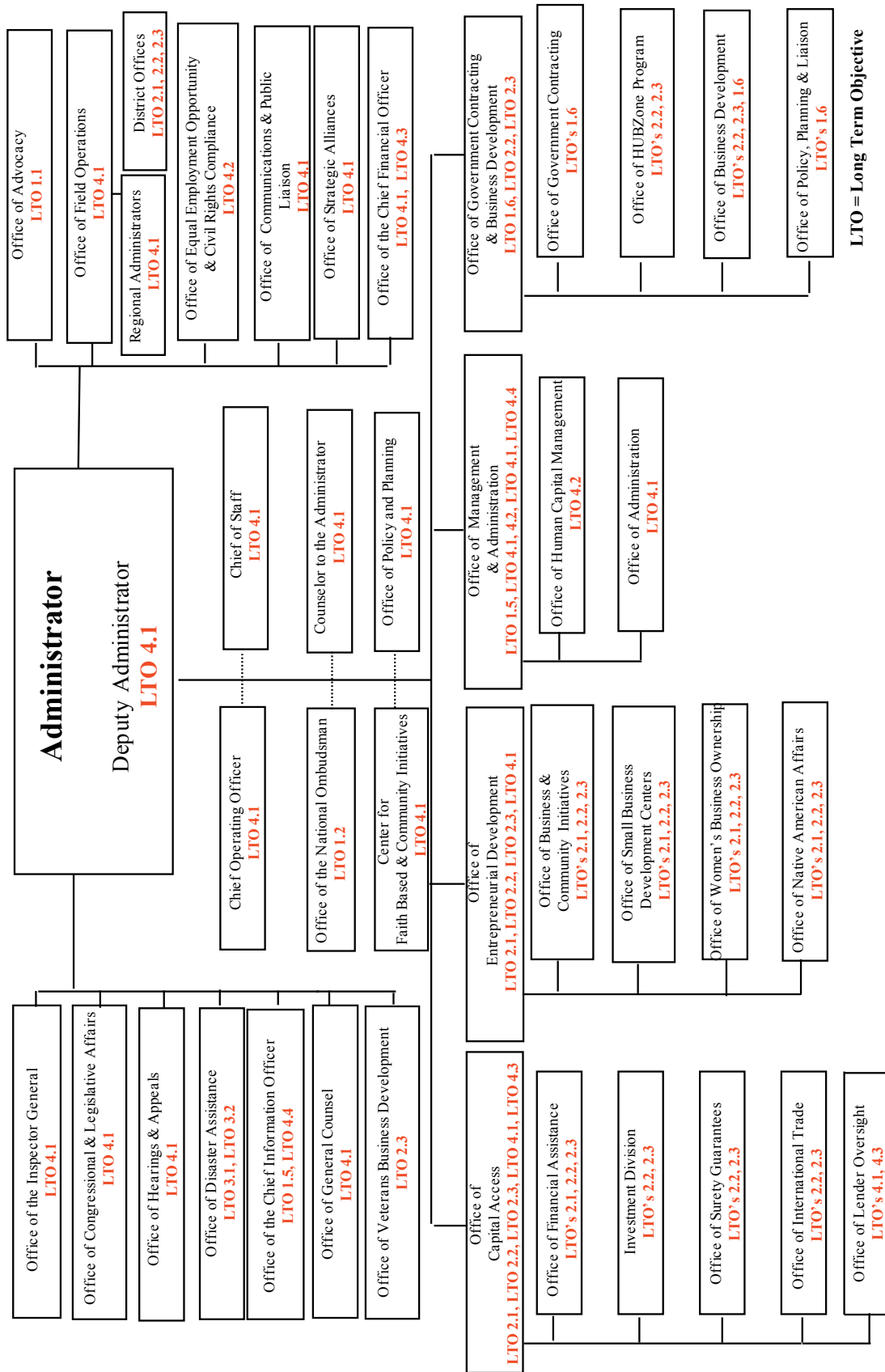
¹⁵ Data from SBA's Scorecard.

SBA Regions & Disaster Area Office Locations And Territorial Responsibilities





UNITED STATES SMALL BUSINESS ADMINISTRATION





RESULTS AND CHALLENGES

In support of its Strategic Goals and Long-Term Objectives, SBA has developed specific Outcome Measures that define long-term success, and annual performance targets and other indicators that track progress (see the Performance Report). SBA program and support organizations have also developed both long-term and annual strategies for achieving these results (see the Strategic Plan and the Performance Budget).

The discussion below is an overview of the key results achieved by SBA during FY2004 in support of each of the Long-Term Objectives, along with information on SBA's performance and accountability for its activities as they relate to each of these Objectives. Cost-related information is included with cross-references to related financial reporting on the program and any significant

management issues. Forward-looking statements describing possible future trends that may impact performance are included, as well.

In order to ensure that this Performance and Accountability Report is a truly integrated presentation of information from various documents, this Management Discussion and Analysis is organized around each of the SBA Strategic Goals and Long-Term Objectives. Summary information on performance and results, financial reporting and management concerns is included wherever it relates to the programs and activities under a particular Objective. Cross references to other sections of the PAR note where more detailed information on the item may be found.



STRATEGIC GOAL 1

This Strategic Goal is intended to ensure that all enterprising Americans have the maximum opportunity to succeed. In FY2004, SBA saved small businesses money; protected them from excessive Federal regulatory enforcement; provided automated tools and information on how to comply with laws and regulations; and played a key role in ensuring full and open competition to Government contracts. As an advocate, SBA improved the economic environment in which small businesses compete.

The table below is a summary of how successful SBA was in achieving its goals under the various Long-Term Objectives that compose Strategic Goal 1. In FY2004, the SBA exceeded 52%, met 33% and did not meet 14% of its goals under Strategic Goal 1.¹ Support of this Strategic Goal cost \$44,620,000.

Strategic Goal 1 Improve the economic environment for small businesses.					
Program Annual Output Measures					
	Exceeds Green	Green	Yellow	Red	Total
	% ≥ 10	10% > 0	0% > -10	% ≤ -10	Total
Long-Term Objective 1.1	3	2	0	1	6
Long-Term Objective 1.2	3	2	0	1	5
Long-Term Objective 1.3	N/A	N/A	N/A	N/A	N/A
Long-Term Objective 1.4	N/A	N/A	N/A	N/A	N/A
Long-Term Objective 1.5	N/A	N/A	N/A	N/A	N/A
Long-Term Objective 1.6	5	3	0	1	9
Total	11	7	0	3	21
Percentage of Total	52	33	0	14	100

¹ If the variance between FY2004-goal and FY2004-actual was 10% or greater the objective was considered green and had exceeded the expectations. If the variance between FY2004-goal and FY2004-actual was between 0% and 10% the objective was considered green and successfully met expectations. If the variance between FY2004-goal and FY2004-actual was between

0% and -10% the objective was measured at yellow and substantially met expectations. Finally, if the variance was -10% or greater, the objective was considered red and had not substantially met their goal. The reasons for significantly negative variance are given in the performance report section under the corresponding program by long-Term Objective.



LONG-TERM OBJECTIVE 1.1

Key Results & Cost-Related Performance

U.S. SMALL BUSINESS ADMINISTRATION									
Results and Budgetary Resources									
Strategic Goal 1. Improve the economic environment for small businesses.									
Long-Term Objective 1.1: Minimize the regulatory burden on small business through effective advocacy.									
SBA Agency-Level Assistance									
SBA Outcome Measures	SBA Annual Outcome Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual ²	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal ³
1.1.1 Achieve a yearly regulatory cost savings that increases at a rate of 10 percent annually over a base amount of \$3.8 billion set in 2002, due to Advocacy intervention, by FY2008. (\$ billion).	4.4	21.1 ⁴	6.4	4.6 ⁵	17.1	5.1	5.6	139.2%	24.5
1.1.2 Ensure 66 Federal agencies have in-house expertise on how to comply with the Regulatory Flexibility Act (RFA) as amended by the Small Business Regulatory Enforcement Fairness Act of 1996, by FY2008. ⁶	N/A ⁷	N/A	N/A	25.0	25.0 ⁸	25.0	8.0	87.9%	66.0
1.1.3 Achieve a total of 50 states that have formally considered legislative or executive action to increase regulatory flexibility for small businesses, by FY2008.	N/A	N/A	N/A	10.0	17.0	10.0	10.0	54.0%	50.0
1.1.4 Insert Advocacy data and reports into the curricula at 80 of the top 100 universities with major entrepreneurship programs, by FY2008.	N/A	N/A	N/A	16.0	27.0	16.0	16.0	85.0%	80.0
SBA Output Measures	SBA Annual Output Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal
Total Research Publications	17	18	30	20	21	20	20	91.0%	100
SBA Outcomes Cost	SBA Annual Cost								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Estimate	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate	% Estimate by FY06	FY 03-07 Estimate
Total Regulatory Burden Assistance Cost (\$000)	7,175	7,780	8,680	8,877	9,360	9,994	N/A	N/A	N/A

² Values that are indicated in italics are estimates.

³ For goals and estimates starting after 2003, FY 03-07 represents data from start year until 2007.

⁴ FY2002 actual. The \$21.1B total is an anomaly. In FY2002 the Office of Advocacy saved businesses and unprecedented \$21.1 B in potential costs of regulation. The bulk of the cost savings were due to revisions made to the Cross Media Electronic Reporting and Record Keeping Rule (CROMERRR) by the Environmental Protection Agency which resulted in an estimated savings of \$18B. This is extremely unusual and unpredictable event and, although a valid cost savings, its sheer magnitude makes it an aberration and therefore it should not be used in any performance or target calculation. Excluding CROMERRR, the Office of Advocacy's FY2002 cost savings were \$3.1B, excluding ongoing annual cost savings.

⁵ The \$4.5 B figure that was originally published in the Budget Request and Performance Plan Report, Congressional Submission Fiscal Year 2004, was an estimate. The new figure, \$4.6B is based on the median of savings achieved in FY1999, 2000, 2001 and 2002, plus or minus two standard deviations to eliminate outliers.

⁶ Proper consideration of Small Entities in Agency Rulemaking, requires agencies to establish policies and procedures for complying with Regulatory Flexibility Act, and requires the Office of Advocacy to issue periodic guidance on how to comply and provide Agency training.

⁷ Not Applicable (N/A).

⁸ In addition to training Federal agencies, Advocacy has also provided training to Congressional staff and trade associations representing small businesses.



The SBA, through the Office of Advocacy, brought the voice of small business to policy makers inside the government, both in Washington, D.C. and in state capitals around the country. Economic research, policy analyses and small business outreach helped identify issues of concern. The Office of Advocacy worked to reduce the regulatory burdens that Federal policies imposed on small firms and to maximize the benefits small businesses received from the government. As the key results table illustrates, FY2004 achievements exceeded or met expectations for each of the outcome measures. These results were achieved, due in large part, to efforts by the Office of Advocacy to improve planning and to streamline its business processes. **In the past year, regulatory cost savings to small businesses totaled \$17.1 billion exceeding the goal by over \$12 billion.**⁹ This savings allowed thousands of small businesses to remain open, and allowed thousands of others to invest in new jobs, equipment or other resources.

Looking Forward

The Office of Advocacy intends to decrease its reliance on secondary information sources, such as Federal Register notices, and to increase direct interaction with the small business community as a means of better understanding the top issues. As a major component of this effort, the Office of Advocacy will continue to host small business community forums at the local, national and regional levels. Direct Office of Advocacy interaction with small businesses will be augmented with a marketing and public relations campaign that will increase awareness of small business issues and increase usage of the Office of Advocacy's Internet sites.

The Office of Advocacy anticipates numerous circumstances that may adversely affect its ability to achieve its goal of minimizing regulatory impact on small businesses such as the number of rules issued annually that have an impact on small entities and the cost of those rules. Moreover, there is no enforcement mechanism to ensure that agencies abide by the law and develop less burdensome regulatory alternatives. In addition, in cases of emergency, the rulemaking process is often truncated and small business consideration is less likely. The SBA also anticipates the potential that future years' savings will trend downward if Federal regulatory agencies internalize processes that result in rules with less impact from the outset.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

No significant related issues.

Management Issues

OMB PART Evaluation:

Programs under this Objective have not been evaluated by OMB using the Program Assessment Rating Tool.

Inspector General Reports:

No significant related issues.

Government Accountability Office Reports:

No significant related issues.

OIG-Identified Management Challenges:

No significant related issues.

⁹ This number is not final until the release of Advocacy's annual report to Congress during the winter of 2005.



LONG-TERM OBJECTIVE 1.2

Key Results & Cost-Related Performance

U.S. SMALL BUSINESS ADMINISTRATION									
Results and Budgetary Resources									
Strategic Goal 1. Improve the economic environment for small businesses.									
Long-Term Objective 1.2: Ensure equity and fairness in the Federal regulatory enforcement process.									
SBA Agency-Level Assistance									
SBA Outcome Measures	SBA Annual Outcome Measures								
	FY 2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Goal	FY2004 Actual ¹⁰	FY2005 Goal	FY2006 Goal	% Achieved by FY06	FY 03-07 Goal ¹¹
1.2.1 Achieve a 10 percent decrease in the annual number of Federal regulatory enforcement actions taken against small businesses. ¹²	N/A	N/A	N/A	N/A	N/A	-5%	-5%	N/A	-10%
1.2.2 Achieve a 5 percent increase in the number of enforcement actions in which the civil penalty is reduced or waived, by FY2008.	N/A	N/A	N/A	N/A	N/A	5%	5%	N/A	10%
SBA Output Measures	SBA Annual Output Measures								
	FY 2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Goal	FY2004 Actual	FY2005 Goal	FY2006 Goal	% Achieved by FY06	FY 03-07 Goal
Total Regulatory Assistance Events (number)	N/A	N/A	N/A	37	42	37	38	104%	112
SBA Outcomes Cost	SBA Annual Cost								
	FY 2001 Actual	FY2002 Actual	FY2003 Actual	FY2004 Estimate	FY2004 Actual	FY2005 Estimate	FY2006 Estimate	% Estimate by FY06	FY 03-07 Estimate
Total Assistance Cost (\$000)	935	2,945	1,200	1,480	1,469	1,322	N/A	N/A	N/A

¹⁰ Values that are indicated in *italics* are estimates.

¹¹ For goals and estimates starting after 2003, FY 03-07 represents data from start year until 2007.

¹² OMB asked SBA to move this goal off last summer because there will be no preliminary data until the second quarter of FY2005. Since it is a new requirement, many agencies are delayed in reporting, and this will make it difficult to establish the baseline.



The SBA provides a means for small businesses to contest Government actions without fear of retaliation. During FY2004, the SBA assisted small businesses when they experienced excessive Federal regulatory enforcement actions, such as repetitive audits or investigations, excessive fines, penalties, threats, retaliation or other unfair enforcement action by a Federal Agency. Additionally, Federal agencies made great strides in improving the Federal enforcement environment: response time improved and there was a dramatic increase in the compliance assistance offered to small business. SBA's efforts in support of this Long-Term Objective were mainly accomplished through the Office of the National Ombudsman.

To raise awareness of the assistance available, the SBA engaged in a variety of outreach and marketing initiatives, including: hosting hearings and roundtables; utilizing the Ombudsman Website and media outlets; processing comments; and establishing partnerships with key Federal Agency decision-makers. This last approach paid off in FY2004, as the agencies provided quality responses and the response rate increased. **Furthermore, for the first time since Federal agencies started reporting, through the Small Business Paperwork Relief Act, the total monetary amount of civil penalty abatements, reductions or waivers was in excess of \$1 billion.**

During FY2004, the SBA eliminated customer satisfaction as an outcome measure (Outcome 1.2) and indicator of its effectiveness under this Long-Term Objective. The reason for this decision was that as a type of "complaint department," a customer satisfaction performance indicator is not relevant and would be a skewed indicator. Additionally, consultants working for an SBA commissioned FY2003 economic impact study had great difficulty in having small business testifiers make any on-the-record "customer satisfaction" comments.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

No significant related issues.

Management Issues

OMB PART Evaluation:

Programs under this Objective have not been evaluated by OMB using the Program Assessment Rating Tool.

Inspector General Reports:

No significant related issues

Government Accountability Office Reports:

No significant related issues

OIG-Identified Management Challenges:

No significant related issues.



LONG-TERM OBJECTIVE 1.3

Minimize the taxation burden on small business through effective advocacy.

In May 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (Jobs and Growth Act) was signed into law by the President. **In FY2004, nearly 24 million small businesses received tax relief totaling about \$75 billion.**

The SBA contributed to this achievement by sponsoring a series of educational roundtables throughout the country on the importance of reducing taxes on small businesses to improve the economic environment. The SBA also improved the economic environment by acting as effective “eyes and ears” and advocates for small business, bringing their issues to the policy makers, making information more accessible, affordable and user-friendly, and educating the public. SBA, through the Office of Field Operations, assisted in the completion of 17 tax conference events that educated both the public and the small business community about the many advantages of the President’s plan to support business owners and entrepreneurs with tax incentives. The intended result of educating small business through these events is an increase in tax savings to small businesses.

Additionally, the SBA, through the Office of Advocacy, assessed the effect of current tax laws on small businesses. For example, during FY2004, the SBA determined that small-incorporated firms benefit more than larger firms do from the meals and entertainment deduction. The cost associated with this Long-Term Objective was included among the costs associated with the Agency’s overhead.

Related Financial Reporting

Independent Auditor’s Report/SBA Financial Statements for FY2003:

No significant related issues.

Management Issues

OMB PART Evaluation:

Programs under this Objective have not been evaluated by OMB using the Program Assessment Rating Tool.

Inspector General Reports:

No significant related issues

Government Accountability Office Reports:

No significant related issues

OIG-Identified Management Challenges:

No significant related issues.



LONG-TERM OBJECTIVE 1.4

Minimize the health care cost burden on small business through effective advocacy.

In addition to reducing tax burdens and opening markets, the President's Small Business Agenda calls for reducing the cost of doing business in America. The cost of health care represents a significant portion of the costs incurred by small businesses. Affordable health care was the single most important issue for small businesses in a 2004 poll conducted by the National Federation of Independent Businesses.

In response to the Administration's desire to give small business owners more power to provide health care for their uninsured employees and to improve the health care options for employees who already have insurance, the SBA conducted regional roundtables comprised of congressional offices, officials from the Departments of Labor (DOL) and Health and Human Services (HHS), small business leaders, trade associations and regional Chambers of Commerce. The purpose of the roundtables was to educate the public on the advantages of National Health Savings Accounts and Associated Health Plans. The cost associated with this Long-Term Objective was included among the costs associated with the Agency's overhead.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

No significant related issues.

Management Issues

OMB PART Evaluation: Programs under this Objective have not been evaluated by OMB using the Program Assessment Rating Tool.

Inspector General Reports:

No significant related issues

Government Accountability Office Reports:

No significant related issues

OIG-Identified Management Challenges:

No significant related issues.



LONG-TERM OBJECTIVE 1.5

Key Results & Cost-Related Performance

U.S. SMALL BUSINESS ADMINISTRATION Results and Budgetary Resources									
Strategic Goal 1. Improve the economic environment for small businesses. Long-Term Objective 1.5: Simplify the interaction between small businesses and the Federal government through the use of the Internet and information technology.									
SBA Agency-Level Assistance									
SBA Outcome Measures	SBA Outcome Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03–07 Goal
1.5.1 Achieve a savings for businesses through the creation, operation and maintenance of the Business.gov, a "one-stop" interagency, intergovernmental Web portal containing information on government programs, services, forms and compliance assistance for business. (\$ million).	N/A	N/A	UNAVAIL.	56	N/A	56	56	50%	224
1.5.2 Achieve savings by reducing the unnecessary paperwork burden on small businesses, by creating a web portal by which they can find all relevant government -to-business and government-to-citizen forms online in one location (\$ million).	N/A	160,000	UNAVAIL.	1,000	N/A	123.7	\$123.7	67%	371
1.5.3 Achieve savings through the deployment of electronic tools to facilitate compliance with government laws and regulations. (\$ million). ¹³	N/A	20	21	50	N/A	123.7	123.7	75%	358
SBA Output Measures	SBA Output Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03–07 Goal
Time Saved Time (hours)	N/A	N/A	N/A	N/A	N/A	350,000	525,000	59%	1,475,000
Total visitors per month ¹⁴	N/A	170	250	UNAVAIL. ¹⁵	140	300	500	85%	1,400
Total Cost Reduction Assistance	N/A	20	21	50	N/A	124	124	64%	421
SBA Outcomes Cost	SBA Annual Cost								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Estimate	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate	% Estimated by FY06	FY 03–07 Estimate
Total Savings Assistance Cost (\$000)	N/A	N/A	UNAVAIL.	2,533	2,603	2,639	N/A	N/A	N/A

¹³ Outcome measure Indicator 1.5.3 renamed. Renamed outcome measure has similar overall FY2008 goals. Original indicator read "By FY2008, achieve a savings of \$358 million through the deployment of electronic tools to facilitate compliance with government laws and regulations."

¹⁴ Indicator renamed. In 2003 PAR, the indicator Number of users per month was mistakenly published as "Number of users per week."

¹⁵ Business Gateway project changed scope in 2003. As a result, no goal was established for the number of visitors for FY2004.



Led by the Office of the Chief Information Officer, in FY2004, SBA helped simplify the interaction of small businesses with the government by successfully creating an E-government Strategic Program Plan and by implementing several cross-Agency technical elements of the initiative that resulted in the successful launch of a user-friendly business portal (Business.gov). This portal provides a one stop, common access point for information on Federal government services and information needed to assist with starting, running, and growing a business. The portal can save time and money for small businesses by making available 2,511 public forms in a Forms Catalog. The SBA received a “green” rating in the E-Government component of the President’s Management Agenda, in part, because of the implementation of Business.gov.

Related Financial Reporting

Independent Auditor’s Report/SBA Financial Statements for FY2003:

No significant related issues.

Management Issues

OMB PART Evaluation:

Programs under this objective have not been evaluated by OMB using the Program Assessment Rating Tool.

Inspector General Reports:

No significant related issues

Government Accountability Office Reports:

No significant related issues

OIG-Identified Management Challenges:

No significant related issues.



LONG-TERM OBJECTIVE 1.6

Key Results & Cost-Related Performance

U.S. SMALL BUSINESS ADMINISTRATION									
Results and Budgetary Resources									
Strategic Goal 1. Improve the economic environment for small businesses.									
Long-Term Objective 1.6: Increase the effectiveness of Federal agencies to provide opportunities for small business. ¹⁶									
SBA Agency-Level Assistance									
SBA Outcome Measures ¹⁷	SBA Annual Outcome Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal ¹⁸
1.6.1 "By 2008, small businesses, assisted by Federal agencies, benefiting from Federal contracts or international assistance, will exceed the national average survivability rate.									
	N/A ¹⁹	N/A	N/A	TBD ²⁰	TBD	TBD	TBD	TBD	TBD
1.6.2 By 2008, small businesses, assisted by Federal agencies, benefiting from Federal contracts or international assistance, will exceed the national average job creation rate.									
	N/A	N/A	N/A	TBD	TBD	TBD	TBD	TBD	TBD
1.6.3 By 2008, small businesses, assisted by Federal agencies, benefiting from Federal contracts or international assistance, will exceed the national average revenue growth rate.									
	N/A	N/A	N/A	TBD	TBD	TBD	TBD	TBD	TBD
SBA Output Measures	SBA Annual Output Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal
Total Receiving Technical Assistance	N/A	N/A	N/A	21,000	38,754	21,000	21,000	97%	83,000
Total Receiving Procurement Assistance	N/A	9,400	11,065	10,400	20,169	15,714	1,000	149%	32,150
Total Receiving Trade Assistance	N/A	N/A	N/A	N/A	9	9	9	75%	36
SBA Outcomes Cost	SBA Annual Cost								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Estimate	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate	% Estimate by FY06	FY 03-07 Estimate
Total Technical Assistance Cost (\$000) ²¹	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Procurement Assistance Cost (\$000)	29,544	28,516	27,795	32,418	36,296	39,578	N/A	N/A	N/A
Total Trade Assistance Cost (\$000) ²²	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

¹⁶ Long-Term Objective 1.6 was reformulated during FY2004 to better capture SBA's activities.

¹⁷ These impact outcomes were developed as a result of the modification to the previous long-term objective, consequently the values need to be developed.

¹⁸ For goals and estimates starting after 2003, FY2003-2007 Goal represents data from start year to 2007.

¹⁹ Not Applicable (N/A).

²⁰ To be determined (TBD).

²¹ All costs for technical assistance are included in the costs for procurement assistance.

²² All trade assistance costs are included in Strategic Goal 2.



A new report released by the SBA reveals that over 99 percent of all American businesses are small, they create approximately two-thirds of private sector jobs, and they employ over half of the Nation's non-farm private employees. Small businesses drive the Nation's economy

The SBA has long assisted the other Federal agencies in providing opportunities to small businesses. With such inter-Agency assistance, the SBA has concentrated its technical knowledge and resources on the opportunity gaps that exist in the small business community. This has allowed for a more efficient use of funds and assets and has opened new opportunities for small businesses, which have contributed to create a growing economy.

This Long-Term Objective was reformulated during FY2004 to better reflect the purpose and function of the programs contributing to it, and to emphasize the cross-cutting character and the synergy resulting from the SBA's contribution to the efficiency and effectiveness of other Federal agencies. The Agency achieves this objective in the areas of Federal contracting and international trade through the Office of Government Contracting and Business Development (GCBD) and the Office of Capital Access.

SBA Procurement Assistance.

By statute, the goal of the Federal Government is to award 23 percent or more of total prime contracting dollars to small businesses. The SBA administers a small business goal setting program across all other Federal agencies to assist in the achievement of this government-wide goal. **In FY2003, 23.6% of all prime contract dollars, a total of \$65.5 billion went to small businesses, exceeding the government-wide goal.** Traditionally, SBA's performance measure for prime contracting assistance has been the achievement of the statutory goal. In FY2005, we are taking a different approach, in the interest of developing a better understanding of the processes

and procedures that both promote and deter goal accomplishment. The knowledge gained as we partner with select agencies under the new goals described below will assist SBA in influencing improved goal performance Government-wide:

- Increase prime contract goal achievement by 3 percentage points at five low performing and/or high impact Federal procuring agencies, as defined by an Agency's failure to meet the statutory small business goals.
- Increase subcontract contract goal achievement by 3 percentage points at five low performing and/or high impact Federal procuring agencies, as defined by an Agency's failure to meet the negotiated small business subcontracting goals.

Additionally, in FY2004, the SBA aggressively implemented the Business Matchmaking initiative. Business Matchmaking helps to increase small businesses' access to Federal contracting opportunities. Federal, county and state agencies, as well as private sector contractors, are matched with small business sellers either in person or through facilitated telephone conversation. In FY2004, 12,061 face-to-face meetings and 1,361 facilitated telephone calls were conducted. **This generated close to \$20 million in contract awards to small businesses.**

Looking Forward

An ongoing issue with the 8(a) Business Development Program has been the concentration of contract awards to a small number of businesses. This issue limits the effect of prime contracting in this segment of the small business population. To counter this trend, SBA field offices will work with Federal agencies to improve the equitable distribution of Federal contracts to companies participating in the 8(a) Business Development Program. Additionally, SBA will improve coordination with other Government agencies in the area of small business certifications. This will increase efficiency and reduce costs for small businesses.



SBA Financial Assistance

In addition to national economic issues, small businesses are also greatly affected by international commerce and trade. Trade liberalization can especially benefit small business by helping reduce the impact of trade barriers. Since the signing of the North American Free Trade Agreement in 1993, U.S. small businesses have increased export sales from \$25.0 million in 1992 to \$60.2 billion in 2001. SBA's supporting financial assistance spans both the national and international trade arenas. In FY2004, through the Office of Capital Access, SBA served on inter-Agency trade working groups led by the Office of the U.S. Trade Representative to support negotiations for the U.S.-Southern Africa Free Trade Agreement, Central America Free Trade Agreement and negotiations with the Andean Pact countries of South America. In FY2004, SBA also negotiated and coordinated the signing of a Memorandum of Understanding with the Export-Import Bank (EXIM), consummating two years of negotiations on an Export Working Capital Program (EWCP) Co-Guaranty Program. This agreement will enhance the ability of small businesses to gain access to capital to support their export transactions and allow EXIM and SBA to cooperate more effectively in providing trade finance support to U.S. small businesses.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

No significant related issues.

Management Issues

OMB PART Evaluation:

OMB has not evaluated Programs under this Objective using the Program Assessment Rating Tool.

Inspector General Reports:

The following OIG report covers issues that have an impact on accomplishment of this Objective:

- OIG Report 4-20, *Small Business Set-Aside Contract to Measurement Instruments, Inc.* (see Appendix 2)

Government Accountability Office Reports:

GAO has issued reports with recommendations that have an impact on accomplishment of this Objective:

- GAO-04-454, *Contract Management: Impact of Strategy to Mitigate Effects of Contract Bundling on Small Business is Uncertain* (see Appendix 4)
- GAO-03-54, *Small Business Administration: The commercial Marketing Representative Role Needs to Be Strategically Planned and Assessed* (see Appendix 4)
- GAO-02-166R, *Small Business Subcontracting Report Validation Can Be Improved* (see Appendix 4)
- GAO-01-346, *Federal Procurement: Trends and Challenges in Contracting With Women-Owned Small businesses* (see Appendix 4)

OIG-Identified Management Challenges:

No significant related issues.

NEW ERA BENEFITS FROM SBA MATCHMAKING EVENT



Joe Lopez

Following years spent as a general construction contractor working for others, Joe Lopez, President of New Era Builders, Inc., decided he wanted to be his own boss. At its inception, New Era Builders was a two employee home rehabilitation company that generated \$80,000 in annual revenues. New Era Builders, Inc. received its SBA 8(a) certification on September 30, 1998, and it has subsequently received multiple 8(a) contracts totaling approximately \$9 million. New Era has completed 8(a) projects for the U.S. Coast Guard, General Services Administration (GSA), the Veterans Administration (VA), and NASA.

In addition to its 8(a) certification, New Era was a successful participant in the joint SBA/U.S. Chamber of Commerce Business Matchmaking Event held at Cleveland Browns Stadium on October 9 and 10, 2002. New Era came away from the event with a \$300,000 order from the U.S. Navy for security upgrades to the Marine Corps Reserve Center in Brookpark, Ohio. This represented the first contract awarded as a result of the Matchmaking Event. New Era successfully completed the contract, and the Navy was very pleased with New Era's workmanship on the job. Joe's company is recognized as a leader in the community, having earned an array of awards.



STRATEGIC GOAL 2

This Strategic Goal is intended to benefit those small businesses that deal through direct interface with the SBA and the Agency's established network of resource partners. The SBA empowers individual entrepreneurs to take advantage of the opportunities the market offers by providing knowledge, skills and technical assistance; access to loans and equity; and procurement opportunities either directly or through its partners. While SBA programs benefited all entrepreneurs seeking its assistance, the Agency placed particular emphasis on groups

that own and control little productive capital and have limited access to markets.

The table below is a summary of how successful SBA was in achieving its goals under the various Long-Term Objectives that compose Strategic Goal 2. In FY2004, the SBA exceeded 42%, met 27% and did not meet 18% of its goals under Strategic Goal 2.¹ Support of this strategic goal cost \$475,474,000.

Strategic Goal 2 Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.					
Program Annual Output Measures					
	Exceeds Green	Green	Yellow	Red	Total
	%>=10	10>%>0	0>%<-10	%<=-10	Total
Long-Term Objective 2.1	8	2	2	1	13
Long-Term Objective 2.2	14	10	6	7	37
Long-Term Objective 2.3	6	6	1	4	17
Total	28	18	9	12	100
Percentage of Total	42	27	13	18	100

¹ If the variance between FY2004-goal and FY2004-actual was 10% or greater the objective was considered green and had exceeded the expectations. If the variance between FY2004-goal and FY2004-actual was between 0% and 10% the objective was considered green and successfully met expectations. If the variance between FY2004-goal and FY2004-actual was between

0% and -10% the objective was measured at yellow and substantially met expectations. Finally, if the variance was -10% or greater, the objective was considered red and had not substantially met their goal. The reasons for significantly negative or positive variances are given in the performance report section under the corresponding program by Long-Term Objective.



LONG TERM OBJECTIVE 2.1

Key Results and Cost-Related Performance

U.S. SMALL BUSINESS ADMINISTRATION Results and Budgetary Resources									
<i>Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.</i>									
<i>Long-Term Objective 2.1: Increase the positive impact of SBA assistance upon the number and success of small business start-ups (SSB).</i>									
SBA Agency-Level Assistance									
SBA Outcome Measures	SBA Annual Outcome Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual ²	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal ³
2.1.1 Prospective and start-up small businesses assisted.									
	888,890	982,745	1,066,274 ⁴	1,095,169	1,102,086	766,006	796,369	80%	4,680,706
2.1.2 Percentage of prospective and start-ups from among those small businesses assisted.									
	72.5%	72.8%	73.0%	72.6%	74.9%	TBD ⁵	TBD	TBD	TBD
2.1.3 By FY2008, the percentage of successful business start-ups lasting at least one year that were assisted will exceed the national average for successful start-ups as measured by firm births, firm terminations, change in revenue.									
	N/A ⁶	N/A	TBD	N/A	TBD	TBD	TBD	TBD	TBD
2.1.4 Median customer satisfaction rate									
	84.0%	85.3%	84.3%	85.5%	91.5%	86.9%	90.0%	98.9%	90%
SBA Output Measures	SBA Annual Output Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal
Total Receiving Financial Assistance ⁷	14,408	15,456	18,962	20,911	23,847	21,005	29,020	81%	113,995
Total Receiving Technical Assistance ⁸	874,482	967,289	1,047,311	1,074,258	1,078,239	745,001	767,349	80%	4,566,710
SBA Outcomes Cost	SBA Annual Cost								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Estimate	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate	% Estimate by FY06	FY 03-07 Estimate
Total Financial Assistance Cost (\$000)	70,370	73,357	70,487	45,096	64,679	28,932	N/A	N/A	N/A
Total Technical Assistance Cost (\$000)	108,713	104,295	95,404	102,371	113,945	100,321	N/A	N/A	N/A

² Values that are indicated in italics are estimates.

³ For goals and estimates starting after 2003, FY2003-2007 Goal represents data from start year until 2007.

⁴ Values changed from what was reported in the FY03 PAR due to changes in the calculation of the "Total Receiving Financial Assistance" and "Total Receiving Technical Assistance."

⁵ To be determined (TBD).

⁶ Not Applicable (N/A).

⁷ A recalculation has occurred at the program level resulting in a change to this total.

⁸ Estimate based on information received from the Entrepreneurial Development resource partners and derived from historical numbers of clients served. In FY2005 and FY2006, the Office of Entrepreneurial Development is implementing changes in its data collection methods to be able to provide actual numbers for the breakdown of its in-business, start-up and nascent clients.



Entrepreneurs seeking to start a business need working capital and knowledge to chart the road to success. The SBA focused on those prospective and small business start-ups that were not able to secure credit on their own in the private market. To increase their chances of success, the SBA assisted small businesses creating needed business tools such as writing business plans, doing market research, etc. SBA met its outcome goals for the total number of prospective and start-up small businesses that were provided financial or technical assistance, and for the percentage of businesses assisted by SBA that were prospective or start-up small businesses (SSB). It should be noted that in this case the number of businesses assisted is treated as an outcome, as well as an output. This is to ensure that, as the Agency increases the percentage of its assistance that goes to prospective and start-up businesses and as it measures the success of those businesses, it also expands the absolute number that comprises this percentage. In that regard, SBA is working to develop the data systems to support the outcome measures dealing with the success of SSBs assisted by the Agency and with customer satisfaction.

SBA Financial Assistance

During FY2004, SBA exceeded the expectations set by its goal under Outcome Measure 2.1.1 by providing financial assistance to at least 23,847 prospective and start-up small businesses, and by ensuring that at least 25.5% of the small businesses that it assisted financially were start-up. As detailed in the performance section, this past year's performance reversed a several-year downward trend in the percentage of assistance by SBA that was directed to start-ups small businesses. This increase in small business ownership was achieved by the Agency's 7(a) and 504 lending programs, as reflected in the fact that SBA met its goals for those two major programs. Small business start-ups often experience difficulty obtaining credit and are more sensitive to shifts in the economy, which makes this focusing of SBA resources a very important tool for increasing business ownership.

The SBA guaranteed 20,631 7(a) loans to start-up small businesses during FY2004, which amounts to

25.4% of the total number of 7(a) loans approved, well in excess of SBA's goal of 20%. Also, it is estimated that approximately 1,022 small businesses received start-up financing under the MicroLoan program, exceeding the goal of 925. However, the Agency was not able to meet its goal for the percentage of venture capital dollars invested in start-ups, which reflects a continuation of the downward trend in venture capital financing of start-up financings since the "bubble" collapse of 2000.

SBA Technical Assistance

The Agency met its FY2004 goals under Outcome Measure 2.1.1 of providing technical assistance to more than approximately 1,078,239 prospective, nascent and start-up small businesses. This is an important achievement because technical assistance can be the critical element determining the success or failure of a start-up business. The main focus of the SCORE program and Women Business Centers is on nascent and prospective entrepreneurs, both programs achieved their goals for clients trained and counseled. These programs served 383,997 and 98,170 start-up entrepreneurs in FY2004 respectively. **The SBA's recently launched Small Business Training Network (SBTN) supported the President's Management Agenda e-government initiative by serving more than 660,965 online prospective, nascent and start-up users, achieving 130% of its goal.**

Looking Forward

SBTN helps define SBA's commitment to expanding electronic government and offers the lowest per client training costs of all OED technical assistance programs. However, the online initiative is challenged by operating without a learning management system that can register clients and track individual progress. This makes it difficult to fully evaluate the success of the initiative, or more specifically, to accurately measure outputs and outcomes.

Future plans for SBTN include alignment with a learning management system, such as golearn.gov, and offering a wider variety of targeted courses.



Dwight Smith
President/CEO

SOPHISTICATED SYSTEMS EARNS SOLID REPUTATION AND RESULTS WITH THE HELP OF THE SBA

Sophisticated Systems, Inc. (SSI) is a leading systems integration and consulting firm that develops and delivers synergistic solutions to respond to its client's needs. SSI has received a significant amount of assistance from the SBA since its inception. Prior to establishing the company a detailed business plan was created with the assistance of a *SCORE* counselor. This early planning was essential to the company getting off to a fast start.

In SSI's earlier years, it received assistance from the SBA's 7(j) program in two very important areas. The first area was marketing support. The SBA provided marketing support to assist SSI in revamping its marketing literature, including its corporate capability statement so that it could more effectively "tell its story". This was very important as they competed for

opportunities in both the private and public sectors. The second area in which the 7(j) program assisted SSI was in the accounting area. The SBA provided a consultant through this program to assist the company in setting up its accounting system to ensure that they were DCAA compliant.

The SBA, via the 504 loan program provided financial support for SSI to build a 10,000 square foot headquarters facility in Columbus. The total package was approximately \$800,000. According to SSI, this facility continues to serve as our headquarters and provides a fine facility for our team to perform their jobs as well as an excellent place to meet with current and prospective customers.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

The report for FY2003 described financial aspects of programs involved in supporting this Objective:

- *Independent Auditor's Report* (FY2003 PAR, pages 230-232)
- *Independent Auditor's Report on Internal Control, Credit Reform Controls* (FY2003 PAR, pages 236, 240) and *Financial Management and Reporting Controls* (FY2003 PAR, page 246)
- *Notes to Financial Statements, Note 6.R. Credit Program Subsidy* (FY2003 PAR, pages 291-294)
- *Notes to Financial Statements, Note 17. Disclosure Related to Restatement of FY2002 Financial Statements, Issue 5* (FY2003 PAR, pages 311) and *Issue 13* (FY2003 PAR, page 312)

Management Issues

OMB PART Evaluation:

OMB has conducted a PART evaluation of an SBA program that supports accomplishment of this Objective.

This program received the weighted score and effectiveness rating shown below:

- *Small Business Investment Company (SBIC): 64% — Adequate* (see Appendix 6)

Inspector General Reports:

The following OIG reports cover issues that have an impact on accomplishment of this Objective:

- OIG Report 4-21. *The SBIC Program At Significant Risk for Losses Report* (see Appendix 2)
- OIG Report 4-37. *Memo Report—Risk Management* (see Appendix 2)

Government Accountability Office Reports:

GAO has issued a report with recommendations that have an impact on accomplishment of this Objective:

- GAO-04-610, *Small Business Administration: New Service for Lender Oversight Reflects Some Best Practices, but Strategy for Use Lags Behind* (see Appendix 4)



- GAO-03-90, *Small Business Administration: Progress Made but Improvements Needed in Lender Oversight* (see Appendix 4)
- GAO-01-192, *Small Business Administration: Actions Needed to Strengthen Small Business Lending Company Oversight* (see Appendix 4)

OIG-Identified Management Challenges:

The OIG has identified major management challenges that impact accomplishment of this Objective:

- Challenge 1. *SBA needs to improve its managing for results processes and performance data* (see Appendix 5)
- Challenge 5. *SBA needs better controls over the business loan purchasing process* (see Appendix 5)
- Challenge 6. *SBA needs to continue improving lender oversight* (see Appendix 5)
- Challenge 9. *Preventing loan fraud requires additional measures, including new regulations and funding* (see Appendix 5)
- Challenge 11. *The current structure and oversight practices of the SBIC program place too much risk on taxpayer money* (see Appendix 5)

Agency Response to Management Challenges:

- Challenge 5. *SBA needs better controls over the business loan purchasing process*

The OIG identified four major categories of actions needed to address this challenge, with an assessment of “no substantial progress” in three of the four categories.

The first set of action items recommends that SBA’s “top management provides a positive and supportive attitude toward the guarantee purchase process,” with one red rating dealing with inadequate resources devoted to the purchase process. The staffing level for the National Guaranty Purchase Center (NGPC) is targeted for 66 employees (including eight contractors). SBA believes that this level of staffing is adequate to staff the Center. Once SBA fills its vacant positions, it will conduct further staffing analysis.

In January 2004, the NGPC, located in Herndon, Virginia, was created to centralize the liquidation and guaranty purchase process. The purchase process function was removed from SBA district offices

that are assigned loan production goals, therefore eliminating any potential conflicts with lenders with respect to possible denials of liability or repair actions. Denials or repairs are pursued by the purchase center independently of any loan-making considerations. Therefore, the action, which reads: “Management establishes an organizational culture where deny and repair actions are used when appropriate,” should be dropped.

In response to the recommendation that “adequate training be provided,” the NGPC purchase processors were given training materials, supplemented by the National Lenders Guide, plus access to on-line training for purchase activity with other training materials available for lenders. SBA also completed individualized instruction to NGPC purchase processors and is currently providing additional internal SBA training. The Agency also developed a Loan Officers Development training module to be provided to employees on an as-needed basis by experienced NGPC personnel.

The second set of action items deals with “SBA identifying level of improper payments and analyzing risk associated with loan guarantee purchases,” with one red rating relating to “determining level of improper payments for the entire loan portfolio.”

For several years, SBA determined the actual or potential risks of erroneous payments through the Guaranty Purchase Review process. In this regard, SBA’s Office of Field Operations examined District Office purchases beginning in FY2000 through FY2003. With the creation of the NGPC, purchases have now been centralized and a new quality review procedure has been developed and scheduled for implementation at the centralized location during the first quarter of FY2005.

A quality review procedure will also be implemented at the commercial servicing centers in Fresno and Little Rock for SBAExpress purchases during the first quarter of FY2005. From an independent perspective, the Office of Lender Oversight (OLO) will be involved in determining the accuracy of these new procedures and will conduct periodic reviews.

Through an analysis of the purchases performed, an improper payment rate of 1.9 percent would be an appropriate estimate for the 7(a) program. At the NGPC, along with the Fresno and Little Rock commercial



loan servicing centers (for SBAExpress purchases), a statistically valid sample size has been established based on OMB guidance for use in connection with a quality review methodology to determine the level of improper payments for the entire 7(a) loan portfolio. Through the purchase sample and the quality review process, the level of improper payments will be monitored for the entire 7(a) loan portfolio.

The third set of action items deals with *“policies and procedures that provide guidance to ensure consistency and accuracy in the purchase process.”* Reflecting that progress is being made, SBA issued a comprehensive Agency Policy Notice on purchase procedures in October 2002 with the concurrence of the OIG and a Policy Notice that addressed the issue of adequate documentation for purchases. A complete revision of Chapter 13 of SOP 50 51 has been in clearance since December 2003 and is targeted for approval by November 30, 2004, covering purchase policy and procedures with a revised chapter that has an updated purchase checklist showing documentation required from lenders.

The fourth set of action items deals with *“SBA management of the guarantee purchase to reduce improper payments and resolve programmatic problems,”* with one red rating for the “absence of a quality assurance system that allows SBA to make progress in achieving established goals for reducing improper payments.”

SBA developed a quality assurance review system in the fourth quarter of FY2004, which will be fully implemented in the first quarter of FY2005 at the NGPC and also at the commercial servicing centers in Fresno and Little Rock. As stated in response to the first set of action items, SBA will continuously review improper payment information for accuracy through the purchase sample and quality review process.

During the second quarter of FY2005, based on an analysis of the first quarter results and a determination of the most common problems that may have resulted in the improper payments, SBA will establish a goal for reducing the level of improper payments. Additional training or procedural changes, as appropriate, will address the problems. The OLO will also be involved in determining the accuracy of these new procedures and will conduct periodic reviews.

- Challenge 6. *SBA needs to continue improving lender/participant oversight*

The Office of Lender Oversight made substantial progress in addressing this management challenge in FY2004. With the acquisition and integration of SBA's loan and lender monitoring services into the Agency's lender oversight framework, and the approval by the Administrator of a policy memorandum that establishes lender oversight responsibilities within the Agency, 14 items that had been yellow were improved to green. All items identified in the challenge are now green except for eight items, which are designated as yellow (“progress being made”). SBA will address these items with Standard Operating Procedures (SOPs) governing lender oversight activities during the second quarter of FY2005.

- Challenge 9. *Preventing loan fraud requires additional measures, including new regulations* (see response in Long Term Objective 2.2)

- Challenge 11. *The current structure and oversight practices of the SBIC program place too much risk on taxpayer money* (see response in Long Term Objective 2.2)



LONG TERM OBJECTIVE 2.2

Key Results and Cost-Related Performance

U.S. SMALL BUSINESS ADMINISTRATION									
Results and Budgetary Resources									
<i>Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.</i>									
<i>Long-Term Objective 2.2 Maximize the sustainability and growth of existing small business (ESB) assisted by SBA.</i>									
SBA Agency-Level Assistance									
SBA Outcome Measures	SBA Annual Outcome Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual ⁹	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal ¹⁰
2.2.1 Increase the number of existing small businesses receiving SBA assistance.									
	389,538	430,842	474,557	512,227	519,470	431,718	460,550	74.8%	2,514,735
2.2.2 By FY2008, SBA-assisted small businesses in existence for 1-3 years, will exceed the national average for survivability of firms within the same time frame.									
	N/A ¹¹	N/A	TBD ¹²	NA	TBD	TBD	TBD	TBD	TBD
2.2.3 By 2008, SBA-assisted small businesses, will exceed the national average rate for job creation by small firms.									
	N/A	N/A	TBD	NA	TBD	TBD	TBD	TBD	TBD
2.2.4 By FY2008, SBA-assisted small businesses, will exceed the national average rate for revenue growth by small firms.									
	N/A	N/A	TBD	NA	TBD	TBD	TBD	TBD	TBD
2.2.5 Median customer satisfaction rate									
	84.0%	85.3%	85.0%	85.5%	91.5%	86.9%	90.0%	98.9%	90.0%

⁹ Values that are indicated in *italics* are estimates.

¹⁰ For goals and estimates starting after 2003, FY-2003-2007 Goal represents data from start year until 2007.

¹¹ Not Applicable (N/A)

¹² To Be Determined (TBD)



U.S. SMALL BUSINESS ADMINISTRATION									
Results and Budgetary Resources									
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.									
Long-Term Objective 2.2: Maximize the sustainability and growth of existing small business (ESB) assisted by SBA.									
SBA Agency-Level Assistance									
SBA Output Measures	SBA Annual Output Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal
Total Receiving Financial Assistance ¹³	42,378	51,644	67,558	89,730	78,179	71,618	88,316	76.0%	402,304
Total Receiving Technical Assistance ^{14, 15}	331,753	362,040	388,144	403,297	423,641	341,967	353,093	75.3%	1,993,899
Total Receiving ¹⁶ Procurement Assistance	15,407	17,158	18,855	19,200	17,650	18,133	19,141	62.2%	118,532
SBA Outcomes Cost	SBA Annual Cost								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Estimate	FY 2004 Actual	FY 2005 Estimate ¹⁷	FY 2006 Estimate	% Estimated by FY06	FY 03-07 Estimated
Total Financial Assistance Cost (\$000)	175,856	207,412	229,569	178,400	188,683	104,413	N/A	N/A	N/A
Total Technical Assistance Cost (\$000)	74,924	64,668	57,004	64,699	65,937	57,923	N/A	N/A	N/A
Total Procurement Assistance Cost (\$000)	40,740	51,075	40,855	44,193	43,678	51,583	N/A	N/A	N/A

¹³ Values changed from what was reported in the FY03 PAR due to the recalculation of the "Total Receiving Financial Assistance" and "Total Receiving Technical Assistance".

¹⁴ Estimate based on information received from the Entrepreneurial Development resource partners and derived from historical numbers of clients served. In FY2005 and FY2006, the Office of Entrepreneurial Development is implementing changes in its data collection methods to be able to provide actual numbers for the breakdown of its in-business, start-up and nascent clients.

¹⁵ A recalculation has occurred at the program level resulting in a change to this total. It no longer contains "Microloans—Loans Approved" as previously reported in the FY03 PAR. Not all Microloans receive technical assistance which would result in double-counting. The number of small businesses receiving technical assistance will use a direct measure of this output.

¹⁶ Change in total is due to an overall re-evaluation of program measurements at the program level. Please see the procurement assistance section for detailed information. An example of the changes is the Small Disadvantaged Business program which is now reported under LTO 1.6.

¹⁷ Cost figures are from FY05 Congressional Budget Submission.



Some small businesses face challenges when trying to obtain from the private market either the capital that they need to grow, or the knowledge to mature and expand. They also may need assistance to be able to take advantage of contract opportunities within the private or government sector. During FY2004, SBA worked hard to help existing small businesses meet those challenges. SBA met its overall outcome goal for the total number of 513,587 established small businesses (ESBs) provided financial, technical or procurement assistance. It should be noted that, in this case, the number of businesses assisted is treated as an outcome, as well as an output, in order to ensure that Agency programs do not selectively decrease the number of clients served as a means of achieving greater measures of average business success. In that regard, SBA is working to develop the data systems to support the outcome measures dealing with the success of ESBs assisted by the Agency, including measures of survivability, job creation and revenue growth, and customer satisfaction.

SBA Financial Assistance

SBA was not able to meet its goal under Outcome Measure 2.2.1 for providing financial assistance to 89,730 existing small businesses. This was due mainly to the unexpected increase in the average size of 7(a) loans, which reversed the previous downward trend in loan-size over the past several years. In addition to guaranteeing loans to small businesses, the SBA also provided assistance accessing venture capital. The SBIC program made an estimated 3,302 investments to 1,600 small business SBICs, and licensed 37 new investment companies, thereby exceeding all of its FY2004 goals. Furthermore, **the SBA met or exceeded all its trade assistance output goals, generating \$924 million in export sales.**

SBA Technical Assistance

SBA met its goal under Outcome Measure 2.2.1 by providing technical assistance to 417,358 existing small businesses. Different programs focused on specific counseling and training needs within the small business community. The WBC program contributed to this effort by training or counseling 24,542 small businesses. The SBDC program provided a wide variety of information in the form of counseling or training to an estimated 314,823 existing small businesses in areas such as procurement, manufacturing assistance, and use of technology. The SBA counseled or trained 5,542 small business clients through its Office of International Trade. Additionally, 5,776 small business clients improved their capacity to successfully compete for Federal or private contracts.

SBA Procurement Assistance

The SBA substantially met its goal under Outcome Measure 2.2.1 of providing procurement assistance to 19,200 small businesses. The SBA assisted small businesses to overcome opportunity challenges by increasing their opportunity to compete for contracts. The Surety Bond Guarantee program guaranteed 7,803 bonds to small businesses. The SBA did not meet its goal of issuing 9,900 surety bond guarantee approvals, primarily due to the lack of reauthorizing legislation for the Preferred Surety Bond (PSB) Program, which has been a pilot program since 1988. The SBA did meet its goal of certifying at least 500 8(a) small businesses net.

SBA also stimulated economic development and created jobs in urban and rural communities by providing Federal contracting preferences to small businesses by issuing 2,294 HubZone certifications to small businesses.



Dusty Ducros

SEE SPOT RUN AS SBA LEADS THE WAY

As a young child, Dusty Ducros always enjoyed reading the stories about dogs; especially the one entitled "See Spot Run." She grew up with an intense passion and sensitivity for animals, but her one love was dogs. Says Dusty with a laugh, "I would wash and bathe the dog so much, that he would really do like the book says and "run." Inevitably, so as to not completely wash the hair off of her dog, she began washing other dogs in the neighborhood, and soon learned that people would gladly pay her for doing this. And so, the seed of entrepreneurship was strongly planted in Dusty's mind. Of course, she had to take a slight detour since she was still too young to accomplish this task on her own. Her mother, wise and strong, encouraged Dusty to finish getting her high school and college education before leaping into a business venture. Dusty soon learned that her

love for dogs was not enough for her to succeed in business. So, she began to seek other training and education to sharpen her business skills. Thus, Dusty came to the Women's Business Resource Center with a brief idea on how to improve her fledgling business. Although many friends did not encourage her endeavors, through counseling and training at the Women's Center, she quickly learned how to transform her fledgling business into one with not only potential, but "profits." Not even a year after intense counseling and attending and completing the long-term entrepreneurial training curriculum, Dusty proudly reports an increase in sales by 27%. She attributes the stabilization of her company to the services rendered by the SBA's Women's Business Resource Center. Says Dusty, "The Women's Business Resource Center has assisted me by giving me ample information and connecting me with the correct business resources. Before receiving assistance from the WBRC, I was lost and didn't know where to start, but their counseling and training helped me and I consider myself a business success."

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

The report for FY2003 described financial aspects of programs involved in supporting this objective:

- *Independent Auditor's Report* (FY2003 PAR, pages 230-232)
- *Independent Auditor's Report on Internal Control, Credit Reform Controls* (FY2003 PAR, pages 236, 240) and *Financial Management and Reporting Controls* (FY2003 PAR, page 246)
- *Notes to Financial Statements, Note 6.R. Credit Program Subsidy* (FY2003 PAR, pages 291-294)
- *Notes to Financial Statements, Note 17. Disclosure Related to Restatement of FY2002 Financial Statements, Issue 5* (FY2003 PAR, pages 311) and *Issue 13* (FY2003 PAR, page 312)

Management Issues

OMB PART Evaluation:

OMB has conducted PART evaluations of several SBA programs that support accomplishment of this objective. This program received the weighted score and effectiveness rating shown below:

- Small Business Development Centers (SBDCs): 73%—Moderately Effective (see Appendix 6)
- 504 Loan Program: 70%—Adequate (see Appendix 6)
- Business Information Centers (BICs): 42%—Results Not Demonstrated (see Appendix 6)
- Service Corps of Retired Executives (SCORE): 71%—Moderately Effective (see Appendix 6)

Inspector General Reports:

The following OIG reports cover issues that have an impact on accomplishment of this objective:

- OIG Report 4-05. *SBA's Federal and State Technology Partnership (FAST) Program* (see Appendix 2)
- OIG Report 4-37. *Memo Report—Risk Management* (see Appendix 2)



Government Accountability Office Reports:

GAO has issued a report with recommendations that have an impact on accomplishment of this objective:

- GAO-04-610, *Small Business Administration: New Service for Lender Oversight Reflects Some Best Practices, but Strategy for Use Lags Behind* (see Appendix 4)
- GAO-03-90, *Small Business Administration: Progress Made but Improvements Needed in Lender Oversight* (see Appendix 4)
- GAO-03-87, *Small Business Administration: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain* (see Appendix 4)
- GAO-02-789, *International Trade: Federal Action Needed to Help Small Businesses Address Foreign Patent Challenges* (see Appendix 4)
- GAO-01-192, *Small Business Administration: Actions Needed to Strengthen Small Business Lending Company Oversight* (see Appendix 4)

OIG-Identified Management Challenges:

The OIG has identified major management challenges that impact accomplishment of this objective:

- Challenge 1. *SBA needs to improve its managing for results processes and performance data* (see Appendix 5)
- Challenge 5. *SBA needs better controls over the business loan purchasing process* (see Appendix 5)
- Challenge 6. *SBA needs to continue improving lender/participant oversight* (see Appendix 5)
- Challenge 9. *Preventing loan fraud requires additional measures* (see Appendix 5)
- Challenge 11. *The current structure and oversight practices of the SBIC program place too much risk on taxpayer money* (see Appendix 5)

Agency Response to OIG's Management Challenges:

- Challenge 1. *SBA needs to improve its managing for results processes and performance data* (see response in Long Term Objective 4.1)
- Challenge 5. *SBA needs better controls over the business loan purchasing process* (see response in Long Term Objective 2.1)

- Challenge 6. *SBA needs to continue improving lender/participant oversight* (see response in Long Term Objective 2.1)
- Challenge 9. *Preventing loan fraud requires additional measures*

SBA respectfully disagrees with the OIG assessment that “no substantial progress is being made” on preventing loan agent fraud. The Agency agreed with the OIG on the course of action, additional measures and milestones to prevent loan agent fraud. In fact, prior to the completion of FY2004, SBA required that lenders using E-Tran provide the name and address of loan agents. As a result of on-going discussions which began during FY2004 with the OIG and COO staff and culminated two weeks after the beginning of FY2005, the ADA/Capital Access issued a SBA Procedural Notice requesting that SBA lending partners ensure that accurate information regarding loan agents is entered into the E-Tran system.

SBA has outlined to the OIG further steps to mitigate the risk of loan agent fraud. Moreover, the OIG has stated that it would like SBA to collect on a voluntary basis the social security numbers, and date and place of birth of loan agents, though the Agency has no authority to collect this information. SBA agreed to work with the OIG to study the issue further and take appropriate action during FY2005.

- Challenge 11. *The current structure and oversight practices of the SBIC program place too much risk on taxpayer money.*

SBA agrees that there is too much financial risk to taxpayers in the structure of the participating securities program, based primarily on (a) previously inadequate Small Business Investment Company (SBIC) licensing standards; (b) misaligned commercial terms between SBA and private investors in such SBICs; and (c) the downturn in private equity markets that occurred in 2000. However, SBA takes issue with the notion that current oversight practices—as they have been improved—are the reason why too much risk to taxpayers exists in the program.

A rigorous and effective risk management and oversight program is essential to protect the Agency's



financial interests in SBICs and to ensure that the objectives of the Small Business Investment Act of 1958, as amended (the Act), are being met. Such a program begins, first and foremost, with the licensing of qualified private fund management teams.

SBA's risk management and oversight procedures after an SBIC receives its license, draws SBA leverage, and begins fund operations, are also important. Within a framework where decisions on a case-by-case basis are a necessary part of the overall policy and procedures, the objectives of SBA's post-licensing risk management program are as follows:

1. Promote highest standards of integrity and best fund management practices among SBICs.
2. Strengthen existing "early warning" procedures to assess financial and regulatory issues affecting fund performance.
3. Ensure consistency and continuity of day-to-day oversight activities of Investment Division personnel.
4. Collect operational data and analysis to assist in efforts to estimate total prospective portfolio losses over time.

During FYs 2003–2004, SBA substantially improved its understanding of the performance and risk dynamics in the SBIC program. Specifically, SBA developed historical data for the participating securities program to be used in revising the subsidy model. A first-ever set of (unaudited) financial statements was created for the program. Using this performance data, SBA benchmarked its Participating Securities SBICs against the rest of the venture capital industry, employing typical venture metrics to help assess future performance in relation to the marketplace. In addition, new risk rating and assessment procedures were put in place to prioritize portfolio oversight and provide justification for default estimates and fund transfers to liquidation.

The OIG concluded that SBA had not implemented the recommendation to "develop and implement an effective control process for liquidating participating securities." SBA agrees with the OIG that a more efficient, better documented control process for liquidations must be developed and implemented. This action is the subject of a current, ongoing audit. The Investment Division will implement appropriate changes as a result of the audit.



LONG TERM OBJECTIVE 2.3

Key Results and Cost-Related Performance

U.S. SMALL BUSINESS ADMINISTRATION Results and Budgetary Resources									
<i>Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.</i>									
<i>Long-Term Objective 2.3: Significantly increase successful small business ownership within segments of society facing special competitive opportunity gaps (COG).</i>									
SBA Agency-Level Assistance									
SBA Outcome Measures	SBA Annual Outcome Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual ¹⁸	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal ¹⁹
2.3.1 Increase the number of start-ups and existing small businesses facing special competitive opportunity gaps (COG) receiving SBA assistance.									
	12,753	48,078	64,283	68,767	612,890 ²⁰	495,149	513,334	96.5%	1,752,003
2.3.2 By FY2008, small businesses facing special competitive opportunity gaps that were assisted by SBA, will exceed the National survivability rate for comparable small businesses within the first 2 years of existence.									
	N/A ²¹	28,857	41,605	TBD ²²	TBD	TBD	TBD	TBD	TBD
2.3.3 By FY2008, small businesses facing special competitive opportunity gaps that were assisted by SBA, will exceed the National average rate of comparable small business job creation within 2 years of that assistance.									
	N/A	3,004	3,962	TBD	TBD	TBD	TBD	TBD	TBD
2.3.4 By FY2008, small businesses facing special competitive opportunity gaps that were assisted by SBA, will exceed the National average rate of comparable small business revenue growth within 2 years of that assistance.									
	N/A	N/A	TBD	TBD	TBD	TBD	TBD	TBD	TBD
SBA Output Measures	SBA Annual Output Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03-07 Goal
Total Receiving Financial Assistance ²³	1,833	36,187	51,021	52,117	71,109	53,501	57,200	48.7%	338,786
Total Receiving Technical Assistance ²⁴	N/A	N/A	N/A	N/A	529,755 ²⁵	429,701	443,634	65.5%	1,333,426
Total Receiving Procurement Assistance	10,920	11,891	13,262	12,650	12,026	11,947	12,500	46.5%	79,791

¹⁸ Values that are indicated in italics are estimates.

¹⁹ For goals and estimates starting after 2003, FY2003-2007 Goal represents data from start year until 2007.

²⁰ The Entrepreneurial Development's performance indicator included in previous reports, has been discontinued. Historical information for the new indicator was not available. Consequently, values for this outcome prior to FY2004 are artificially low.

²¹ Not Applicable (N/A).

²² To be determined (TBD).

²³ Total receiving financial assistance was recalculated to reflect the changes in the number of Microloans included in this ITO.

²⁴ Entrepreneurial Development values for technical Assistance Output measures would normally be comprised of Minorities, Veterans, and women. We have included the numbers for Women only to avoid double counting. FY2006 report will provide better data.

²⁵ FY2004 ITO 2.3 Indicator includes new Entrepreneurial Development measures, including a breakdown of the numbers of small businesses assisted through training or counseling.



U.S. SMALL BUSINESS ADMINISTRATION									
Results and Budgetary Resources									
<i>Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.</i>									
<i>Long-Term Objective 2.3: Significantly increase successful small business ownership within segments of society facing special competitive opportunity gaps (COG).</i>									
SBA Agency-Level Assistance									
SBA Outcomes Cost	SBA Annual Cost								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Estimate	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate	% Estimate FY06	FY 03-07 Estimate
Total Financial Assistance Cost (\$000)	8,961	14,945	149,277	111,948	114,655	73,988	N/A	N/A	N/A
Total Technical Assistance Cost (\$000)	111,521	93,903	91,946	93,780	79,476	67,056	N/A	N/A	N/A
Total Procurement Assistance Cost (\$000)	39,432	49,573	39,714	54,858	42,302	50,167	N/A	N/A	N/A

The SBA focused resources to assist prospective, start-up and existing small businesses facing special competitive gaps (COG). The SBA helped to increase successful small business ownership within these groups by providing them with financial, technical or procurement assistance. The SBA also re-evaluated the performance indicators used to evaluate SBA's achievements in this Long-Term Objective. It should be noted that, in this case, the number of businesses assisted is treated as an outcome, as well as an output, in order to ensure that Agency programs do not selectively decrease the number of clients served as a means of achieving greater measures of average business success. In that regard, SBA is working to develop the data systems to support the outcome measures dealing with the success of COGs assisted by the Agency, including measures of survivability, job creation and revenue growth.

SBA Financial Assistance

The SBA approved 71,109 loans, helping with the creation or growth of COGs small businesses, and exceeding the set goal of 52,117 financing assistances approved. A major factor in SBA's success in meeting this goal is the fact that 61% of its 7(a) loans and 55% of its 504 loans approved during FY2004 were for COGs. Also, the SBA assisted the participation of COGs in international commerce by increasing the number of approved loans by 30% over the previous year, with a dollar value of \$467,949 million.

SBA Technical Assistance

SBA met its technical assistance goal under Outcome Measure 2.3.1 by providing such assistance to over 529,000 COGs in FY2004. The SBDC program supported this effort by serving an estimated 314,823 women-owned small business clients. An example of SBA focus on COGs small businesses is the Office of Native American Affairs which engaged in activities aimed at expanding services to the Native American community during FY2004. Additionally, the SBA provided technical information in six languages and strived to achieve and maintain diversity among the counselors used by partners such as SCORE. The WBC program, with a mission to serve socially and economically disadvantaged women, served 77,225 women.

SBA Procurement Assistance

SBA met its goal to assist COGs to take advantage of procurement opportunities by providing procurement-related assistance to 12,026 COG clients during FY2004. The 8(a) program provided a broad scope of assistance to 7,553 socially and economically disadvantaged firms, and increased its efficiency with the newly released 8(a) electronic application. The electronic application is proving to be a more *streamlined, more user-friendly, and easier* method for the applicant to apply for certification. It has reduced the average number of days to process an 8(a) application from over 100 days to 45 days, and reduced the number of



days to process an SDB application from 110 days to 40 days. In addition, the HUBZone program certified 2,294 new firms that will be able to increase their revenues by taking advantage of Federal contracting preferences, which in turn will stimulate economic development in Historically Underutilized Business Zones.

Thanks to SBA guaranteed bonds, 2,179 small businesses facing special competitive opportunity gaps were able to bid for contracts. The SBA did not meet its goal of issuing 3,350 surety bond guarantee approvals, primarily due to the lack of reauthorizing legislation for the Preferred Surety Bond (PSB) Program

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

The report for FY2003 described financial aspects of programs involved in supporting this objective:

- *Independent Auditor's Report* (FY2003 PAR, pages 230-232)
- *Independent Auditor's Report on Internal Control, Credit Reform Controls* (FY2003 PAR, pages 236, 240) and *Financial Management and Reporting Controls* (FY2003 PAR, page 246)
- *Notes to Financial Statements, Note 6.R. Credit Program Subsidy* (FY2003 PAR, pages 291-294)
- *Notes to Financial Statements, Note 17. Disclosure Related to Restatement of FY2002 Financial Statements, Issue 5* (FY2003 PAR, pages 311) and *Issue 13* (FY2003 PAR, page 312)

Management Issues

OMB PART Evaluation:

OMB has conducted PART evaluations of SBA programs that support accomplishment of this objective. Issues related to this may be found in the references under Long-Term Objectives 2.1 and 2.2.

Inspector General Reports:

The following OIG reports cover issues that have an impact on accomplishment of this objective:

- OIG Report 4-03. *Co-sponsorship Activities - Los Angeles District Office* (see Appendix 2)
- OIG Report 4-07. *Audit of Puerto Rico & U.S. VI District Office Cosponsored and SBA-Sponsored Activities* (see Appendix 2)
- OIG Report 4-15. *SACS/MEDCOR: Ineffective and Inefficient* (see Appendix 2)
- OIG Report 4-22. *Survey of Business Development Provided by the 8(a) Business Development Program* (see Appendix 2)
- OIG Report 4-31. *Latino Coalition* (see Appendix 2)
- OIG Report 4-44. *Summary Audit of SBA Sponsored Events* (see Appendix 2)

Government Accountability Office (GAO) Reports:

GAO has issued reports with recommendations that have an impact on accomplishment of this objective:

- GAO-04-9, *Small Business Administration: Model for 7(a) Program Subsidy Had Reasonable Equations, but Inadequate Documentation Hampered External Reviews*
- GAO-01-346, *Federal Procurement: Trends and Challenges in Contracting with Women-Owned Small Businesses* (see Appendix 4)
- RCED-00-197, *SBA's 8(a) Information System Is Flawed and Does Not Support the Program's Mission* (see Appendix 4)
- RCED-00-196, *SBA Could Better Focus its 8(a) Program to Help Firms Obtain Contracts* (see Appendix 4)



Terry Webb

WASILLA WOMAN CREATES SUCCESSFUL ENVIRONMENTAL FIRM USING SBA PROGRAM

Terry Webb really came to Alaska to have fun. As a Native-American woman business owner in a male-dominated industry, Webb knew it wouldn't be easy to compete. Webb credits a program of the U.S. Small Business Administration with helping to position the company for growth. In 2002, the company became certified under SBA's 8(a) program, which helps companies owned by socially and economically disadvantaged individuals with technical, management and government contracting assistance. "The 8(a) program helped us to become more focused on our management. The training was invaluable to us," said Webb.

"8(a) has helped us grow a better company." Through the 8(a) program, the company expanded from abatement work into demolition, which allowed the company labor force to expand to eight full-time positions and up to 30 seasonal laborers. The company has performed jobs throughout Alaska, and it always tries to hire local people and rent equipment locally. The company also rents houses and apartments to house their workers, rather than use hotels and motels. The company provides phone, cable and Internet connection whenever possible. Every Friday when on jobs, the company sponsors a safety luncheon, during which an employee who demonstrates safety, initiative and hard work is honored with an award. Sometimes the company brings in guest speakers and regulatory agencies to provide training for the crew. "Safety is Number One with Arrowhead," said Webb. We believe that these luncheons and awards build teamwork and the quality of work that we want to be known for. With the growth of the company, Webb no longer has to suit up for jobs. "I can still go out on the job if I need to, and sometimes it's good for the crew to see the owner in a protective suit," said Webb. "But the growth of Arrowhead keeps me pretty well occupied in the management and marketing of our services. The SBA has played an important role in that growth."

OIG-Identified Management Challenges:

The OIG has identified major management challenges that impact accomplishment of this objective:

- Challenge 1. *SBA needs to improve its managing for results processes and performance data* (see Appendix 5)
- Challenge 7. *The Section 8(a) Business Development program needs to be modified so that (1) more participating companies receive access to business development; (2) standards for determining economic disadvantage are made more clear and objective; and (3) more eligible firms receive contracts* (see Appendix 5)
- Challenge 8. *SBA needs to enforce its rules to deter firms receiving small business set-aside, 8(a), or small disadvantaged business price evaluation preference contracts from passing through large portions of the procurement to other firms* (see Appendix 5)

Agency Response to OIG's Management Challenges:

- Challenge 7. *The Section 8(a) Business Development program needs to be modified so that (1) more participating companies receive access to business development; (2) standards for determining economic disadvantage are made more clear and objective; and (3) more eligible firms receive contracts* (see Appendix 5)

Currently, OIG has three red-rated actions classified as "not implemented:"

- Develop criteria defining "business success;"
- Graduate participants once they reach those levels defined as "business success;" and
- Redefine "economic disadvantage" using objective, quantitative, qualitative and other criteria that effectively measure capital and credit opportunities.



As OIG recognized by rating four of the seven actions needed to meet this challenge as “progress being made” (yellow), SBA drafted a report detailing program data needs, issued a new Standard Operating Procedure (SOP), and is training Business Opportunity Specialists in the field and Headquarters on implementing this SOP. Essentially, throughout FY2004, SBA has re-focused the program to emphasize its core objective; namely, business development, including the issuance of a 7(j) grant to provide business development training and assistance to 8(a) and other disadvantaged firms.

Nevertheless, OIG evaluated three of the actions needed to meet this challenge as “red.” SBA believes it will continue to make progress in these 2 areas, as well as in redefining economic disadvantage in FY2005.

- Challenge 8. *SBA needs to enforce its rules to deter firms receiving small business set-aside, 8(a), or small disadvantaged business price evaluation preference contracts from passing through large portions of the procurement to other firms* (see Appendix 5)

SBA has taken the following actions to address this challenge:

1. Established a sub-industry category and size standard for information technology value added resellers on January 28, 2004; and,
2. Revised the definition of manufacturing for purposes of obtaining small business preferences on Federal contracts on June 21, 2004. In recognition of this effort, the OIG has determined “progress is being made” and will revisit the issue for possible re-designation to a green rating after the new regulations have been in effect for at least one year.



STRATEGIC GOAL THREE

The small business community is a major contributor to the Nation's economic security. In addition to macro and micro economic threats, natural disasters pose a significant threat to small businesses. To accelerate the disaster recovery process, the SBA provides low interest loans to homeowners, renters, non-profits and businesses in the aftermath of disasters.

The table below is a summary of how successful SBA was in achieving its goals under the various Long-Term Objectives that compose Strategic Goal 3. In FY2004, the SBA exceeded 58%, met 33% and did not meet 8% of its goals under Strategic Goal 3.¹ Support of this strategic goal cost \$216,313,000.

Strategic Goal 3 Restore homes and businesses affected by disaster					
Program Annual Output Measures					
	Exceeds Green	Green	Yellow	Red	Total
	% ≥ 10	10 > % > 0	0 > % > -10	% ≤ -10	Total
Long Term Objective 3.1	7	4	0	1	12
Total	7	4	0	1	12
Percentage of Total	58	33	0	8	100

¹ If the variance between FY2004-goal and FY2004-actual was 10% or greater the objective was considered green and had exceeded the expectations. If the variance between FY2004-goal and FY2004-actual was between 0% and 10% the objective was considered green and successfully met expectations. If the variance between FY2004-goal and FY2004-actual was

between 0% and -10% the objective was measured at yellow and substantially met expectations. Finally if the variance was -10% or greater the objective was considered red and had not substantially met their goal. The reasons for significantly negative variance are given in the performance report section under the corresponding program by Long-Term Objective.



LONG-TERM OBJECTIVE 3.1

Key Results & Cost-Related Performance

U.S. SMALL BUSINESS ADMINISTRATION Results and Budgetary Resources									
Strategic Goal 3. Restore homes and businesses affected by disaster. Long-Term Objective 3.1: Restoration-Help restore homes and businesses affected by disaster.									
SBA Agency-Level Assistance									
SBA Outcome Measures	SBA Annual Outcome Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03–07 Goal ²
3.1.1 Percentage of businesses sustaining economic injury that remain operational 6 months after final disbursement. ³	N/A	N/A	N/A	75.0%	95.0%	76.0%	77.0%	N/A	80.0%
3.1.2 Percentage of businesses sustaining physical damage restored within 6 months after final disbursement. ⁴	N/A	N/A	N/A	50.0%	74.0%	55.0%	60.0%	N/A	70.0%
3.1.3 Percentage of homeowners restoring their homes within 6 months of final disbursement. ⁵	N/A	N/A	N/A	70.0%	77.0%	73.0%	77.0%	N/A	85.0%
3.1.4 Percentage of renters restored within 6 months after final disbursement. ⁶	N/A	N/A	N/A	80.0%	85.0%	82.0%	84.0%	N/A	90.0%
3.1.5 Customer satisfaction rate. ⁷	N/A	N/A	N/A	70.0%	67.0%	70.5%	71.0%	N/A	70.0%
SBA Output Measures	SBA Annual Output Measures								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Goal	FY 2004 Actual	FY 2005 Goal	FY 2006 Goal	% Achieved by FY06	FY 03–07 Goal
Total Applications Processed	158,104	88,837	102,278	N/A	104,518	N/A	N/A	N/A	N/A
Total Receiving Disaster Assistance	48,852	21,829	25,856	N/A	28,510	N/A	N/A	N/A	N/A
SBA Outcomes Cost	SBA Annual Cost								
	FY 2001 Actual	FY 2002 Actual	FY 2003 Actual	FY 2004 Estimate	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate	% Estimate by FY06	FY03–FY07 Estimate
Total Disaster Assistance Cost (\$000)	277,074	346,723	270,377	225,896	221,631	216,313	N/A	N/A	N/A

² For goals and estimates starting after 2003, FY2003-2007 Goal represents data from start year until 2007.

³ Name changed: Reported in FY03 as "3.1.1 Percentage of small businesses operational 6 months after Economic Injury Disaster Loan (EIDL) disbursement."

⁴ Name changed: Reported in FY03 as "3.1.2 Percentage of businesses receiving financial assistance to repair or replace damaged property restored within 6 months of final loan disbursement."

⁵ Name changed: Reported in FY03 as "3.1.3 Percentage of individuals receiving financial assistance to repair or replace disaster-damaged homes have restored their property within 6 months of final disbursement (Homeowners)."

⁶ New outcome measure.

⁷ Outcome measure was reported in FY03 under Long term objective 3.2

In FY2004, SBA worked with its partners at the state, local and Federal level to plan and execute disaster recovery operations. In line with the long-term goal of restoring homes and businesses affected by disaster, SBA accomplished or exceeded the following goals:

- i. Enabled 75% of Economic Injury Disaster Loans (EIDLs) to be operational 6 months after final disbursement of monies by SBA (SBA exceeded its goal in this area by 20 percentage points with an actual achievement of 95.3%);
- ii. Ensured that 50% of businesses receiving financial assistance were restored within 6 months of final disbursement (SBA exceeded its goal by 24 percentage points with actual results being at 74%);
- iii. Restored 77% of homeowners' damaged property within 6 months of final disbursement (SBA's original goal was 70%);
- iv. Restored 85% of renter' damaged property within 6 months of final disbursement (SBA original goal was 80%);
- v. Incrementally increased in subsequent performance years the percentage of customer satisfaction of disaster loan applicants to 67% in 2004; and
- vi. Tested and placed into Limited Availability Release (LAR) the Disaster Credit Management System.

SBA has established a series of output measures that drive Long-Term Objective 3.1. The Agency had mixed performance results in these measures, achieving and exceeding in most and falling short in others. Specifically, for the output measure to maintain 95% of loan disbursements within 5 days of receipt of required loan closing documents, SBA achieved 99%. For the goal of establishing field presence to support disaster operations, SBA achieved 100%. **In the output measures that are focused on getting funds into the hands of disaster victims, SBA exceeded its target of 85% for the processing EIDL loans within 20 days, business physical loans within 20 days and home physical loans within 18 days, with actual outputs of 98%, 99% and 99% respectively.** SBA achieved 100% mitigation training of all relevant staff and will maintain 100% training in subsequent performance years.

Business owners, homeowners and renters who have experienced a disaster require the highest possible level of customer service in order to effectively manage their loss. Based on the Federal Consulting Group and the American Customer Satisfaction Index, customer satisfaction tools established by SBA in FY2003, the Agency was able to quantify the quality of its services to disaster victims. In FY2004, SBA established an objective to incrementally increase the percentage of customer satisfaction of disaster loan applicants to 70%. Although SBA missed that mark by 3 percentage points with a 67% customer satisfaction rating, it is important to note that the Agency achieved significant gains in customer satisfaction, with an increase of 8 percentage points over the previous fiscal year.

Looking Forward

In FY2005 and FY2006, SBA will be in the second full year of implementing the Disaster Credit Management System (DCMS) loan processing system. SBA anticipates that, once operable, proper and effective utilization of the system will help the Agency continuously reach and exceed all of its programmatic and production goals by making the loan-making process more efficient and customer-focused. As well, either through contract or through SBA's own Most Efficient Organization (MEO), it is anticipated that the Agency will be in the first full year of a new and streamlined loss verification process.

SBA continues to have a fixed annual budget to support the highly variable disaster recovery mission. As a result of this fixed budget, there is the potential that the number or scope of disasters may lead to funding shortfalls and the inability to consistently meet disaster recovery goals. As a mitigation strategy, SBA anticipates that additional funding will come from supplemental appropriations when necessary, which are also highly variable. Further mitigation of potential funding shortfalls may be achieved by limiting hiring, overtime and field operations.

Disasters of large size and scope may present a number of future challenges to SBA. There may not be ample staff to immediately respond to the needs of all victims nor enough qualified contractors to quickly repair or rebuild the significant number of physical structures damaged.



Allen Johns III

RECOVERING AFTER 9/11 WITH THE ASSISTANCE OF THE SBA

Allen Johns III founded his excavation business in northeastern Pennsylvania at the age of 21. At the time, he turned down a scholarship from Penn State School of Medicine to follow his dream of becoming an entrepreneur. "I just wanted to dig dirt," Johns told the Times-Herald Record. Over the next several years,

the business steadily grew into a million dollar enterprise. His wife, Dawn, helped with the bookkeeping and clerical duties, but with a staff of just seven, it was Johns' knowledge and experience in all facets of the business that were critical to the success of the company.

Johns, a former Navy Seal and member of a Pennsylvania Navy Reserve unit, was called to active duty in December 2001, as a result of the September 11th terrorist attacks on the World Trade Center and Pentagon. The immediacy of his mobilization threatened the future of his company, Pike Underground, Inc. After September 11th, Mr. Johns always thought there was a likelihood he would be activated, but he never anticipated receiving just three hours notice to report for duty. "It was crazy that day. We thought we'd have a few days notice to get our business affairs in order, but he was ordered to report that same day," Mrs. Johns said. Johns was deployed by the Department of Defense to work in their anti-terrorism task force and served as a military police officer.

When initially informed that his tour of duty could last at least a year, he feared his lengthy absence would jeopardize the business. When advised of the situation, his employees agreed to carry on. Dawn was left to run the company without the only person who knew how to do everything. "He was the linchpin that held the business together. "He was our only qualified estimator, he had a network of contacts in the industry, and knew how to operate all the equipment," she said.

The company struggled in the weeks after Johns' deployment and cash flow became a problem. In January, 2002, Johns' father, Allen, Jr., came aboard and helped stabilize the operation, but the company's lack of working capital hampered their ability to win new business. With help from Don Dods from the Small Business Development Center in Kingston, Mrs. Johns applied for an *SBA Military Reservist Economic Injury Disaster Loan*. Pike Underground was approved for a \$408,400 disaster loan that enabled the business to move forward. By waiving interest charges during Mr. Johns' deployment and deferring payments until January 2004, the SBA loan terms provided the company a window of opportunity to recover from Mr. Johns' absence.

After seven months of active duty, Mr. Johns returned to Pike County in July 2002. Upon his return, he decided he needed a different, slightly faster piece of equipment to satisfy his "need for speed," and last summer he purchased a pro race car and started a team. In his time away from the business, Johns and his family travel to races across the country competing on the Pro Dirt Series Tour. In recognition of the support he received from the SBA and SBDC, Johns' emblazoned the logos on his race car. When asked about the logos, Mrs. Johns said "We are indebted to the SBA and SBDC for providing the resources that saved our business, and this is one small way we could show our appreciation."



There may also be instances where the damage is so extensive that long-term financial recovery provided by SBA is not the immediate concern of the disaster victims.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

The report for FY2003 described financial aspects of programs involved in supporting this objective:

- *Independent Auditor's Report* (FY2003 PAR, page 232)
- *Independent Auditor's Report on Internal Control, Credit Reform Controls* (FY2003 PAR, page 243) and *Financial Management and Reporting Controls* (FY2003 PAR, page 247, 250)
- *Notes to Financial Statements, Note 6.R. Credit Program Subsidy* (FY2003 PAR, pages 295)
- *Notes to Financial Statements, Note 17. Disclosure Related to Restatement of FY2002 Financial Statements, Issue 1* (FY2003 PAR, pages 310)

Management Issues

OMB PART Evaluation:

Programs under this objective have not been evaluated by OMB using the Program Assessment Rating Tool.

Inspector General Reports:

No significant related issues

Government Accountability Office Reports:

GAO has issued a report with recommendations that have an impact on accomplishment of this Objective:

- GAO-03-385, *Small Business Administration: Response to September 11 Victims and Performance Measures for Disaster Lending* (see Appendix 4)

OIG-Identified Management Challenges:

No significant related issues.



STRATEGIC GOAL 4

Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services.

This Strategic Goal recognizes that SBA was created for the purpose of fulfilling its programmatic responsibilities of serving the interests of small business. SBA's non-programmatic areas of general management and administration and the various other support functions exist primarily for the purpose of supporting the SBA program areas in fulfilling their own objectives. For this reason, the best measure of successful leadership and support is the degree to which these functions help maximize the efficiency and effectiveness of SBA in achieving its programmatic goals, while also complying with relevant statutory and administrative mandates.

For the first time this year, SBA is providing information on the cost associated with this Strategic Goal. In a table for each Long-Term Objective, the total cost is shown as well as the portion of the cost attributed to four major categories across the Agency: Executive Direction, Management and Administration, CIO, and Agency-wide costs. Note that the OCFO is part of Executive Direction and the Office of Human Capital Management is part of Management and Administration.



Bob Getz

GROCERY STORE TURNS SBA 7(A) LOAN FROM HOXIE STATE BANK INTO BIG PROFITS

The Getz IGA Store serves a small community of about 1300. For years it was the only store in town and added immeasurably to the quality of life in rural Hoxie, Kansas. During its 50-Year Anniversary Celebration, the SBA looked down memory lane. It's the same story; the story of a small business being created and then passed down in ownership to supply a needed service to a community it helps to keep viable by its presence—with SBA stepping in somewhere along the way to make it possible.

The president of the Hoxie State Bank applied to a new and very young Federal Agency, the U.S. Small Business Administration (SBA) for a new lending program, 7(a), called a small business loan guarantee. So in 1958 the city of Hoxie received the benefits of a new grocery store and Bob was able to build a business that would provide a living for his family for generations to come. The business was recognized this year as a representation of the most prevalent kind of loans SBA makes and to showcase how they benefit rural communities during the SBA's 50 Year Anniversary Celebration in Abilene, Kansas at the Eisenhower Library and Museum. President Dwight D. Eisenhower signed Public Law 163, the Act creating the SBA on July 31, 1953.



LONG-TERM OBJECTIVE 4.1

SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support systems, so as to maximize the Agency's mission performance through a comprehensive performance management system.

Key Results & Cost-Related Performance¹

Activity	Total	Executive Direction	Management & Administration	Office of the Chief Information Officer	Agency-Wide
General Planning and Management (000)	\$25,967	\$20,822	\$861	\$0	\$4,284
Total	\$25,967	\$20,822	\$861	\$0	\$4,284

In FY2004, the SBA provided more unified and strengthened outreach efforts at the National and field levels by creating and implementing a new Agency-wide marketing plan. The success story database was made easier to use and was more widely disseminated by upgrading it to a Web-based system.

During FY2004, SBA strengthened its internal systems and processes to improve the quality of service it provides. One way this was accomplished was by developing an electronic case management tracking system, which now provides the ability to track and monitor a case and its related resources through every step of the process. SBA developed a Web-based tracking system for all Freedom of Information Act and Privacy Act (FOIA) inquiries. This system provides the Agency with a real-time tracking and case management system for all FOIA and Privacy Act inquiries received on a Nationwide basis. SBA also streamlined interaction between small businesses and the Federal government through the use of the Internet and information technology.

The SBA conducted a streamlined competition of the field paralegals that resulted in the decision that retaining the function in-house was more cost effective for the Agency. Also, SBA's Ethics Program was brought into compliance with regulations of the Office of Government Ethics.

During FY2004, the SBA began working with field offices and the program offices to develop performance goals for each district that directly linked to the SBA Strategic Plan's Strategic Goals and Long-Term Objectives. The Office of Field Operations (OFO) also strengthened accountability by conducting Regional Administrator Scorecard Reviews and by implementing a new initiative to issue Quarterly Regional Scorecard Awards to the most effective region.

Management Issues

Inspector General Reports:

The following OIG reports cover issues that have an impact on accomplishment of this Objective:

- OIG Report 4-16. *SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders* (see Appendix 3)
- OIG Report 4-39. *Advisory Report—Herndon Purchase Center* (see Appendix 3)

Government Accountability Office Reports:

GAO has issued a report with recommendations that have an impact on accomplishment of this Objective:

- GAO-04-76, *Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication* (see Appendix 4)

¹ Please see table "Cost to Achieve Results by Program Area, Strategic Goal 4 Detailed Breakdown" on page 13 for complete cost information.



OIG-Identified Management Challenges:

The OIG has identified major management challenges that impact accomplishment of this Objective:

- *Challenge 1. SBA needs to improve its managing for results processes and performance data (see Appendix 5)*
- *Challenge 10. SBA needs to update its system of directives to provide proper guidance and control over its operations (see Appendix 5)*

Agency Response to OIG's Management Challenges:

- *Challenge 1. SBA needs to improve its managing for results processes and performance data (see Appendix 5)*

During FY2004, SBA made great strides improving the quality of its performance data and using it to manage for results. Each and every one of SBA's performance indicators were evaluated for accuracy, completeness, contribution to outcomes and usage for making policy decisions. These have resulted in five of these challenge actions obtaining a green status from the OIG. Through a recently negotiated evaluation contract, SBA will improve its ability to measure outcomes that are attributable to Agency programs, thereby addressing one of the two remaining "yellow" ratings. There are no remaining red ratings for this challenge.

- *Challenge 10. SBA needs to update its system of directives to provide proper guidance and control over its operations (see Appendix 5)*

As documented in the OIG report, SBA is making substantial progress on updating the Agency direc-

tives system. By July 2005, SBA expects to receive a green rating after reviewing all directives in existence as of October 1, 2003 to ensure that any backlog of obsolete or draft directives is cleared out, and that all applicable expired notices are incorporated into SOP's.

During FY2004, SBA completed the following actions:

- ADA/M&A established, chaired and consulted with a Task Force to develop a plan to update its system of directives to provide proper guidance and control over its operations;
- The Task Force (M&A, OA, OFO OCA, and OGC) developed a plan for revising the fundamental structure of the directives system and continues to work on this project;
- M&A periodically reports to the Management Board in meetings of concerns and asks each program office to make sure that the concerns are addressed;
- Drafted Policy Notice: Revision of Clearance Procedures in SOP 00-23 for Permanent and Temporary Directives, which was cleared by all offices on 11/3/03 and provided to Chief of Staff for review was not issued;
- As a result of draft policy notice, the Chief of Staff issued Executive Memorandum No. 31, SOP Revisions, dated January 9, 2004, requesting offices revise and incorporate all relevant temporary directives that pertain to permanent policy changes into their SOP's.



LONG-TERM OBJECTIVE 4.2

SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of its customers.

Key Results & Cost-Related Performance²

Activity	Total	Executive Direction	Management & Administration	Office of the Chief Information Officer	Agency-Wide
Human Capital Mgmt and Policy (000)	\$5,927	N/A	\$5,074	N/A	\$853
Total	\$5,927	N/A	\$5,074	N/A	\$853

Office of Human Capital Management

SBA did not achieve its goal in FY2004 of getting a rating of “green” on its status with respect to the Human Capital initiative on the President’s Management Agenda (PMA). However, it did continue to be rated “yellow” on status and “green” on progress by OMB and OPM for its implementation during the year of a comprehensive human capital strategy. During FY2004, SBA completed its competency model analysis and surveyed all employees to benchmark skill sets. It completed a comprehensive leadership competency assessment of all supervisors and managers in order to design a succession planning strategy. The first year of a new performance appraisal system was completed, with individual employee performance plans aligned with the Agency Strategic Plan.

Office of Field Operations

In support of the Human Capital initiative on the PMA, SBA established its first phase of Alternate Work Sites (AWS). AWS will increase direct service delivery and interaction with customers. The guidelines needed to establish an AWS were developed.

Related Financial Reporting

Independent Auditor’s Report/SBA Financial Statements for FY2003:

The report for FY2003 described financial aspects of programs involved in supporting this objective:

- *Independent Auditor’s Report on Internal Control, Financial Management and Reporting Controls* (FY2003 PAR, page 246–254)

- *Independent Auditor’s Report on Compliance with Laws and Regulations* (FY2003 PAR, page 259)

Management Issues

Inspector General Reports:

- OIG Report 4-09. *Review of SBA Purchase Cards* (see Appendix 2)
- OIG Report 4-10. *Audit of SBA’s FY2003 Financial Statements* (see Appendix 2)
- OIG Report 4-11. *Agreed-upon Procedures Report on SBA’s Federal Agencies’ Centralized Trial-Balance Systems (FACTS) Data* (see Appendix 2)
- OIG Report 4-17. *Audit of SBA’s FY2003 Financial Statements Management Letter* (see Appendix 2)
- OIG Report 4-18. *SBA’s Loan Application Tracking Statements Management Letter* (see Appendix 2)
- OIG Report 4-21. *The SBIC Program At Significant Risk for Losses Report* (see Appendix 2)
- OIG Report 4-34. *Audit of SBA’s Process for Complying with the Federal Managers’ Financial Integrity Act Reporting Requirements* (see Appendix 2)

Government Accountability Office Reports:

GAO has issued a report with recommendations that have an impact on accomplishment of this Objective:

- GAO-04-76, *Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication* (see Appendix 4)

² Please see table “Cost to Achieve Results by Program Area, Strategic Goal 4 Detailed Breakdown” on page 13 for complete cost information

**OIG-Identified Management Challenges:**

- **Challenge 4.** *Maximizing program performance requires that SBA fully develop, communicate, and implement its human capital management/transformation strategy (see Appendix 5)*

Agency Response to OIG's Management Challenges:

- **Challenge 4.** *Maximizing program performance requires that SBA fully develop, communicate, and implement its human capital management/transformation strategy (see Appendix 5)*

Of the eight actions required under this challenge, the OIG has evaluated SBA as making progress on all but one item: "Communicate to all employees and incorporate into the Human Capital Plan a transformation strategy that aligns with SBA's FY2003–2008 Strategic Plan. " SBA completed its Human Capital Management plan and will document transformation actions taken during FY2004 and share with SBA staff in FY2005.



LONG-TERM OBJECTIVE 4.3

Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability.

Key Results & Cost-Related Performance³

Activity	Total	Executive Direction	Management & Administration	Office of the Chief Information Officer	Agency-Wide
Budget and Performance Integration (000)	\$2,705	\$2,456	N/A	N/A	\$249
Improved Financial Performance (000)	\$8,302	\$7,321	N/A	N/A	\$981
Total	\$11,007	\$9,777	N/A	N/A	\$1,230

Budget and Performance Integration

SBA received a status upgrade to Green during the 3rd quarter of FY2004. This achievement was accomplished over a year ahead of schedule. Some of the key factors that allowed SBA to achieve a Green rating in this PMA initiative are:

- SBA is using performance information for managing all programs on a monthly basis through its internal execution scorecard. It also has developed a marginal cost methodology, which will be used as part of the process of justifying program funding request changes.
- SBA integrated the Program Assessment Rating Tool results and performance information in its FY2005 budget request.
- Activity-based cost information facilitated development of FY2005 budget policy recommendations for credit programs.
- SBA implemented major changes in the reporting of costs and results resulting in increased transparency in the full cost of the Agency achieving its Strategic Goals, and in fostering the integration of the various programs and delivery structures. **The Mercatus Center April 2004 report on Federal agencies budget and performance integration rated SBA as the top Federal Agency in linking goals and results to costs and cited SBA as a clear best practice in this area.**

Improved Financial Management

During FY2004, SBA continued to make major improvements in financial management. SBA achieved a rating of “green” for progress for the Financial Management PMA based on its plans and progress during the year, but the status rating of “red” remained because of the disclaimed audit opinion issued in January, 2004.

During the year, the Agency completed actions to address virtually all of the issues raised by its independent auditor in the FY2003 financial audit. A new internal control process was implemented for the subsidy estimate modeling process, many improvements were made to the subsidy models, and loan subsidy data and accounting data was analyzed and reconciled to improve the accuracy of the financial information used by SBA. New internal teams were established within the Office of the Chief Financial Officer (OCFO) to solve issues that required the involvement of subsidy, budget and accounting personnel. The team approach has improved communication, enhanced accountability and promoted the achievement of SBA’s core objectives. All of this work was completed while the Agency revamped its existing financial reporting process to meet the accelerated reporting date of November 15, 2004. Also, during FY2004, SBA established an independent Audit and Financial Advisory Committee to add additional accountability to the financial management process.

³ Please see table “Cost to Achieve Results by Program Area, Strategic Goal 4 Detailed Breakdown” on page 13 for complete cost information



Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

The report for FY2003 described financial aspects of programs involved in supporting this Objective:

- *Independent Auditor's Report* (FY2003 PAR)
- *Independent Auditor's Report on Internal Control, Credit Reform Controls and Financial Management and Reporting Controls* (FY2003 PAR)

Management Issues

Inspector General Reports:

- OIG Report 4-09. *Review of SBA Purchase Cards* (see Appendix 2)
- OIG Report 4-10. *Audit of SBA's FY2003 Financial Statements* (see Appendix 2)
- OIG Report 4-11. *Agreed-upon Procedures Report on SBA's Federal Agencies' Centralized Trial-Balance Systems (FACTS) Data* (see Appendix 2)
- OIG Report 4-17. *Audit of SBA's FY2003 Financial Statements Management Letter* (see Appendix 2)
- OIG Report 4-18. *SBA's Loan Application Tracking Statements Management Letter* (see Appendix 2)
- OIG Report 4-21. *The SBIC Program At Significant Risk for Losses Report* (see Appendix 2)
- OIG Report 4-34. *Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements* (see Appendix 2)

Government Accountability Office Reports:

- GAO-03-87: *Small Business Administration: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain*
- GAO-02-313: *Debt Collection Improvement Act of 1996: Status of Selected Agencies' Implementation of Administrative Wage Garnishment*

OIG-Identified Management Challenges:

The OIG has identified major management challenges that impact accomplishment of this Objective:

- Challenge 1. *SBA needs to improve its managing for results processes and performance data* (see Appendix 5).
- Challenge 2. *SBA faces significant challenges in financial management and reporting, which affects its ability to provide reliable, timely and accurate financial information* (see Appendix 5).

Agency Response to OIG's Management Challenges:

- Challenge 1. *SBA needs to improve its managing for results processes and performance data* (see response in Long Term Objective 4.1)
- Challenge 2. *SBA faces significant challenges in financial management and reporting, which affect its ability to provide reliable, timely and accurate financial information* (see Appendix 5)

During FY2003 and FY2004, SBA completed all of the actions identified in the financial management and reporting challenge. As reported last year, during FY2003, the OCFO resolved all of the disaster loan modeling and asset sales cost analysis issues. A statistically valid model was developed for the Master Reserve Fund and SBA accounted for the Fund properly under existing accounting standards.

During FY2004, SBA met all of the Office of Inspector General/Office of the Chief Financial Officer (OIG/OCFO) agreed-upon milestones to deliver the financial statements and related materials on time to meet the accelerated schedule. The OCFO followed an extensive internal control process in developing the subsidy re-estimates and developed thorough documentation in accordance with applicable standards. The Agency also strengthened its internal control process for financial reporting; including ensuring sufficient time was available in the financial statement production process to complete the planned quality assurance steps. As a result, with the issuance of this report, SBA has received an improved audit opinion by submitting complete, timely, reliable financial statements.



LONG-TERM OBJECTIVE 4.4

Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.

Key Results & Cost-Related Performance⁴

Activity	Total	Executive Direction	Management & Administration	Office of the Chief Information Officer	Agency-Wide
Information Technology Management (000)	\$24,503	\$70	\$182	\$22,366	\$1,885
E-Government (000)	\$3,029	\$84	\$286	\$2,413	\$247
Total	\$27,532	\$154	\$468	\$24,779	\$2,132

- During FY2004, SBA was able to increase its E-Government rating on the President's Management Agenda to "Green."
- The Office of the Chief Information Officer (OCIO) improved its ability to support program execution by completing new organizational SOP and establishing a project management office.
- SBA's major IT investments, as required under the President's Management Agenda, stayed within 10% of their applicable cost, schedule and performance range throughout the year.
- OCIO also established an Office of E-government and continued its commitment to e-gov activities as illustrated by participation in and contributions to 18 of the 24 cross-Government projects. SBA successfully implemented the initial phase of the "Business Gateway" that will serve as a one-stop resource for small business in dealing with government.
- SBA also strengthened internal processes to ensure that future IT investments align with the Agency's mission and vision by establishing the Enterprise Architecture Technical Review Board and creating the Business Technology Investment Advisory Committee, co-chaired by the DCIO and DCFO. Together, these bodies assess IT investments, and do so more frequently, to ensure that SBA's resources are being allocated consistent with the Agency's mission and Strategic Goals.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

Independent Auditor's Report, Agency-wide Information Systems Controls (FY2003 PAR, Page 255)

Management Issues

Inspector General Reports:

The following OIG reports cover issues that have an impact on the accomplishment of this Objective:

- OIG Report 4-14. *Enforcement of SBA's IT-EA During the DCMS Project* (see Appendix 3)
- OIG Report 4-19. *Information System Controls for FY2003* (see Appendix 3)
- OIG Report 4-41. *Audit of SBA General Support Systems* (see Appendix 3)
- OIG Report 4-42. *Audit of SBA's Email System* (see Appendix 3)

Government Accountability Office Reports:

GAO has issued reports with recommendations that have an impact on the accomplishment of this Objective:

- GAO-04-49. *Information Technology Management: Government-wide Strategic Planning, Performance Measurement, and Investment Management Can Be Further Improved* (see Appendix 4)
- GAO-02-188. *Loan Monitoring System: SBA Needs to Evaluate Use of Software* (see Appendix 4)

⁴ Please see table "Cost to Achieve Results by Program Area, Strategic Goal 4 Detailed Breakdown" on page 13 for complete cost information



- AIMD-00-170, *Information Technology Management: SBA Needs to Establish Policies and Procedures for Key IT Processes* (see Appendix 4)

OIG-Identified Management Challenges:

The OIG has identified major management challenges that impact accomplishment of this Objective:

- Challenge 3. *Information systems security needs improvement* (see Appendix 5)

Agency Response to OIG's Management Challenges:

- Challenge 3. *Information systems security needs improvement* (see Appendix 5)

SBA disagrees with the OIG rating of “no substantial progress (red)” in #3, “Absence of entity-wide security program controls in place and operating effectively.” In FY2004—early FY2005, SBA implemented the following to resolve this weakness:

- Based upon the OMB FISMA requirements, SBA began developing a comprehensive Agency-wide Security Program that cross-walks to key security standards and creates a timeline and resource plan for these requirements;
- Increased Federal IT Security Staff to adequately resource the IT Security Program;
- Obtained signatures for its “Automated Information System Security Program Policy,” Standard Operating Procedure 90-47;
- Acquired new technology and a services contract that will (1) provide 24X7 security services, (2) establish a redundant firewall, (3) upgrade intrusion detection systems, and (4) establish network assessment services; and
- Updating and improving its Continuity of Operations Plan (COOP) to ensure comprehensive and better integration between IT and Physical Security of all SBA offices.



LONG-TERM OBJECTIVE 4.5

Procurement and contracting services will be planned and managed to support SBA program management and the achievement of the Agency's goals.

Key Results & Cost-Related Performance⁵

Activity	Total	Executive Direction	Management & Administration	Office of the Chief Information Officer	Agency-Wide
Procurement and Administration (000)	\$11,300	N/A	\$9,812	N/A	\$1,479
Competitive Sourcing (000)	\$366	\$31	\$286	\$5	\$44
Total	\$11,666	\$31	\$10,098	\$5	\$1,523

During FY2004, SBA went from a red rating to a yellow rating in Progress and from red to yellow in the status of Competitive Sourcing. SBA conducted five streamlined competitions on work performed by 251 full time equivalent employees (FTE), which could potentially save SBA an estimated \$1.6 million. SBA submitted to OMB an updated Competitive Sourcing Plan, which reflects OMB guidance to conduct 10 competitions by the end of FY2005.

The SBA, through its Office of Administration (OA), worked closely with program and support offices during FY2004 to improve space and lease expense management. Through a targeted rent saving initiative, SBA identified opportunities to reduce office space and the corresponding rent expenses.

Related Financial Reporting

Independent Auditor's Report/SBA Financial Statements for FY2003:

No significant related issues.

Management Issues

Inspector General Reports:

No significant related issues.

Government Accountability Office Reports:

No significant related issues.











OIG-Identified Management Challenges:

No significant related issues.

⁵ Please see table "Cost to Achieve Results by Program Area, Strategic Goal 4 Detailed Breakdown" on page 13 for complete cost information



PRESIDENT'S MANAGEMENT AGENDA SMALL BUSINESS ADMINISTRATION

Initiative	Status	Progress
Human Capital		
SBA will put process in place to address future changes in business needs concerning reorganization at SBA HQ. SBA intends to use the SBA Human Capital Accountability System to evaluate performance and measure results which will facilitate a continued integration of human capital results into the decision making process. SBA will conduct a 360° leadership assessment and document Agency performance improvements based on narrowing the skill gap, creating clear succession plans and improving diversity at the senior levels.	Yellow 	Green 
Competitive Sourcing		
As a result of funding and other factors, SBA was unable to implement its publicly announced decision to outsource SBIC examinations. SBA plans to re-compete this function using a standard competition and begin setting aside adequate funds to address a potential outsourcing or relocation of employees following the implementation of a "most efficient organization." SBA intends to improve the alignment of competitive sourcing efforts with its human capital transformation initiative in order to streamline business processes in accordance with the Human Capital plan. SBA will also develop a competitive sourcing funding strategy to ensure that it maintains adequate funding to cover the contracting and transition costs associated with competitions and their outcomes.	Yellow 	Yellow 
Financial Performance		
As indicated by audit findings, in the area of financial performance, SBA did not achieve its "Proud to be" and compliance goals. SBA has a comprehensive remediation plan for addressing current financial management problems including loan cost estimates and internal control issues. Based on implementation of the remediation plan, SBA expects to be FFMA compliant, provide an unqualified statement of assurance in its annual accountability report, and address repeat internal control weakness.	Red 	Green 
Enhancing E-Government		
Using a comprehensive IT project status review, the SBA Enterprise Architecture and the E-government Program Plan, SBA will continue to realign resources and policies to reflect the new operating structure of SBA and implement measures to ensure that cost and schedule overruns and performance shortfalls fall within acceptable variances. SBA will continue to collaborate with partners to identify and minimize duplicative IT investments and opportunities to utilize cross-Agency solutions and services.	Green 	Green 
Budget Performance Integration		
The Agency provided evidence that performance information is used in managing all programs on a monthly basis through its internal execution scorecard. It also has developed a marginal cost methodology, implemented activity-based costing, and integrated OMB PART and performance information in its FY 2005 budget request. As an indication of the Agency's success, The 2004 Mercatus Center report on Federal Agency Performance and Accountability rated SBA as the top Federal Agency in linking goals and results to costs and cited SBA for best practices.	Green 	Green 



INTERNAL CONTROLS

The SBA has a variety of monitoring and review activities that support its internal controls. These include lender oversight, follow up of OIG and GAO audits, and other management oversight and review activities. The Office of Analysis, Planning and Accountability, in the OCFO, helps SBA program managers and promotes internal controls throughout the Agency.

SBA has taken proactive action to improve its internal control program requiring the active involvement of field and Headquarters managers. Annually, senior Headquarters managers submit to the CFO assertion letters on the status of their respective organizations' internal controls. The managers employ various assessment tools in their internal control assessments. This year the Internal Control Checklist became mandatory as the base for the drafting of annual letters of assertion. The managers' assertions take into account the results of various internal control methods employed by their organizations and discuss corrective actions taken on any weaknesses identified by the GAO, OIG or through the local internal control process.

Each year, the Office of Field Operations (OFO) reviews the assertion letters from the field managers to ensure that any areas of concern noted by these managers, and any reported trends were incorporated into the Agency's internal control efforts. Based on its review of the field assertion letters, the OFO provides comments to the CFO. The CFO reviews the OFO comments and the assertion letters from the senior Headquarters managers to determine whether outstanding audit issues were adequately addressed and whether each manager took the appropriate corrective action.

The SBA's OIG conducts audits and inspections of the Agency's operations and its financial reports. The OCFO works closely with SBA management and the OIG to complete actions necessary to respond to recommendations in final audit reports issued by the OIG. Managers receive and analyze audit reports and provide timely responses to the OIG and the OCFO, taking corrective action when appropriate. The OCFO tracks the completion of these audit recommendations. The OCFO also posts on the SBA's Intranet the status of all open OIG recommendations.

The GAO conducts audits and reviews of Agency programs and operations. Some of the reports contain specific recommendations for improving Agency program delivery and operations. All GAO audits are scheduled through the Office of Congressional and Legislative Affairs, which tracks replies to the GAO and Congress.

Management of the SBA works with the OIG to develop the Agency's Management Challenges and actions needed to address the challenges. The OCFO tracks the completion of these action items and posts the status of the Management Challenges on the SBA's Intranet for managers' information.

Strong internal controls promote sound stewardship through more effective working relationships with SBA's resource partners. The internal control program also provides both internal and external parties assurance that SBA programs and activities are administered soundly and taxpayer funds are used responsibly.



DATA VALIDATION AND VERIFICATION

Managing for results and producing an Annual Performance Plan and Performance and Accountability Report require valid, reliable and high-quality performance measures and data. SBA faces many challenges in acquiring high-quality data on both outputs and outcomes. In addition to using output data internally from its own systems, SBA relies on data from resource partners (such as SBDCs, SCORE and WBC) and other federal and local governments to assess its accomplishments and effectiveness. Limitations such as the lack of relevant data for measures, the accuracy and currency of data, and the reporting capacity of quality data remain major issues for the Agency. Improving data quality continues to be a high priority for SBA, as demonstrated by the creation of the Office of Analysis, Planning and Accountability within the OCFO.

SBA vigorously pursues the following strategies to address the shortcomings of its data quality:

- **Ensuring the validity of performance measures and data.** SBA does this through assessing the relevancy of performance measures and data.
- **Fostering organizational commitment and capacity for data quality.** Achieving data quality through (1) training its managers to make sure they understand the need for quality data, how to develop valid performance measures and how to ensure data quality; and (2) managers attesting to the quality of the data under their management.
- **Assessing the quality of existing data.** Audits and reviews ensure the quality of its financial data systems. However, SBA must assess the quality of loan and program data provided by its resource partners and will include data verification in its lender and resource partner oversight. The OIG has carried out performance measure reviews on the following: 7(a), SBIC, Surety Bond Guarantee, 8(a) and the disaster programs. As an example, an OIG report documented that SBDCs do not always use the same definitions for clients served, making it more difficult to get a valid picture of what has been done.
- **Responding to data limitations.** It is not enough to identify data quality problems. Where there are data limitations, SBA must improve quality.
- **Building quality into the development of performance data.** The design process for new IT systems includes the requirements for developing and maintaining performance data. The new systems and upgrades will make sure that only correct data is entered into the systems and that data is stored with stringent verification and change rules. This is exemplified by the Lender/Loan Monitoring System project.

FY2004 Summary of Data Validation

During FY2004, the SBA, through the Office of the Chief Financial Officer, Office of Analysis, Planning and Accountability worked with the programs to assist them in the process of verifying the alignment of their performance indicators with the Agency's Strategic Plan, and validation of the performance measures currently in use. Data validation is defined as determining if the performance indicator actually measures the goal or objective of interest and is a useful guide to policy making decision. This is a multiple step process.

Once the Agency had produced the FY2003-2007 Strategic Plan, at the end of FY2003, some of the program offices started a process of self-examination of their performance indicators. For example, the Office of Government Contracting and Business Development underwent consolidation of some of their performance indicators to better align their programs with the Agency's Long-Term Objectives and outcomes. Presently, all program offices have examined the best fit of their programs with the Agency's Long-Term Objectives.

During FY2004 the programs were given individualized training, including guidance on ensuring that the performance plan makes clear how a group of program outputs, if achieved, would logically result in accomplishment of the agency's outcome goals. A result of this training was the modification of Long-Term Objective 1.6 to better



reflect the functions being performed by the programs contributing to it, while, at the same time, capturing previously unreported accomplishments.

Additionally, as part of FY2004 data collection, program offices were asked to complete the questionnaire **“Validation of Data Used in Performance Measures”** for each performance indicator that was being used in the FY2004 Performance and Accountability Report. This questionnaire represented an opportunity for managers to more formally evaluate the validity, accuracy and completeness of their data. As part of this questionnaire, they were asked to explain for each performance indicator its connection with the outcome(s) was helping to achieve. They were also asked to explain how they were using the performance indicator as a guide to policy-making decision, and any limitations to this usage.

Finally, the Agency is devoting resources to formally validate the performance indicators within the context of measuring SBA's impact on the formation and growth of small business. SBA has contracted to have an independent external evaluation of the indicators of the programs contributing to Strategic Goal 2. This was also a recommendation of the PART process, which the Agency is implementing. Instead of providing resources for all programs, the Agency decided to focus on Strategic Goal 2, which represented approximately 2/3 of SBA's budget during FY2003. This should be a more efficient use of the funds, at the same time, emphasizing the multiple contributions required for achieving the Agency's Long-Term Objectives.



FMFIA¹ Assurance Statement, FY2004



Hector V. Barreto
SBA Administrator

I am pleased to report that the Small Business Administration's (SBA) internal control program continued to strengthen during FY2004 and the Agency received a significantly improved audit result this year. Our auditor issued a "qualified" opinion on the SBA's FY2004 financial statements recognizing, among other improvements, substantial progress on internal controls related to credit

subsidy modeling. The SBA achieved these improved results while successfully accelerating the overall process in order to comply with the November 15th deadline for issuance of the FY2004 financial statements and the Performance and Accountability Report (PAR). Although much progress has been made, there is still more to be done. The auditor continued to report internal control weaknesses in the SBA's financial reporting and credit subsidy processes even though significant improvement was noted in each area. During FY2004 our credit subsidy process was greatly improved through a disciplined adherence to a number of new quality assurance steps. Financial reporting controls improved through adherence to a rigorous reporting and audit schedule. The auditor also reported a material weakness in SBA's information systems security. The Agency has already begun to address these audit findings and recommendations.

During FY2003, the SBA developed, rebuilt, or upgraded subsidy models used to forecast costs in all major financial programs. During 2004, SBA used its improved models to calculate reestimates using the "Balances Approach" which is an OMB-approved alternative to the traditional approach to reestimates. The balances approach results in more accurate alignment between the subsidy cost models and the general ledger entries related to these programs and, the result is, significantly improved quality

of the financial statements. In order to meet the accelerated financial reporting timeline, however, actual program performance information as of March 31st had to be used for the reestimates and expected performance in the second half of FY2004 had to be estimated. As the year ended however, SBA found that its loan programs had performed better than estimated and the actual purchase amounts for the SBIC, 7(a) and 504 programs were lower than forecasted. Those findings impacted a number of line items in the financial statements and SBA was not able to make an appropriate adjustment for the actual results within the available timeframe. As a result in the auditor issued a qualification in its opinion.

The internal controls for SBA's program operations have continued to show improvement this year and the system currently in place is basically sound. Agency managers have issued assertions as to the status of their FY2004 internal controls, and these assertions are supported by checklists, reviews and other management activity. Internal control improvement will continue to address business process, organization and resource issues and "Management Challenges" identified by SBA's management and auditors.

As reported in this PAR, the SBA implemented improvements to address compliance with Federal Financial Management Improvement Act (FFMIA) accounting and systems standards. Although substantial improvement was made, the SBA's independent auditor reported several instances of non-compliance with accounting and systems standards, I therefore cannot certify that SBA is in compliance with FFMIA.

Overall, I am providing a "qualified" assurance that SBA's internal controls are achieving their intended objectives in accordance with the Office of Management and Budget Circular A-123 and the Federal Managers Financial Integrity Act (FMFIA). I am qualifying this assurance

¹ Federal Managers Financial Integrity Act



because of the internal control weaknesses reported in the FY2004 audit relating to SBA's financial reporting, credit subsidy and information security.

We have improved our reporting, credit subsidy, and information security, and we will make more progress in

these areas in FY2005. I am confident that these improvements will be reflected in improved SBA audit results in FY2005. I will continue to take corrective action until all of the audit issues are resolved.

Hector V. Barreto
Administrator



SUMMARY OF OFFICE OF INSPECTOR GENERAL FOLLOW-UP

Throughout the year, the OIG conducts audits of the SBA's processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are very beneficial to SBA's management. The Agency and the OIG work together to reach agreement on the recommendations. Once management and the OIG agree regarding a recommendation, it becomes a "management decision." The manager also provides a specific action plan accompanied by a target date for completion. Once an action plan is fully implemented it becomes a final action.

The OCFO is responsible for monitoring the final actions and reporting on their status of implementation. To track and report these to management, the OCFO established

a database and developed a status report available on the SBA Intranet page. This is updated as corrective actions are completed. Program offices also provide regular updates on final action status that are used to update the database.

The OCFO has continued to take aggressive steps to improve management's attention to these issues, resulting in 168 final actions during FY2004.

The following two charts depict the SBA's monetary final action activity (audit recommendations with disallowed or questioned costs, and with funds put to better use). The status of all audit recommendations is reconciled with the OIG to ensure actions are posted promptly and accomplished in accordance with the agreed-upon target dates. Detailed information on the FY04 OIG reviews can be found in Appendix 2.

Table I		
Final Action On Audit Recommendations With Disallowed / Questioned Costs		
October 1, 2003 – September 30, 2004		
	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	8	\$1,011
B. Recommendations on which management decisions were made during the period.	9	\$4,788
C. Total recommendations pending final action during period.	17	\$5,799
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	6	\$1,423
(b) Property	0	\$0
(c) Other	0	\$0
2. Write-Offs	0	\$215
3. Total	6	\$1,637
E. Recommendations needing final action at the end of the period.	11	\$4,161



Table II		
Final Action On Audit Recommendations With Disallowed / Questioned Costs		
October 1, 2003 – September 30, 2004		
	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	0	\$0
B. Recommendations on which management decisions were made during the period.	5	\$1,120
C. Total recommendations pending final action during period.	5	\$1,120
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	4	\$805
2. Value of recommendations that management concluded should not or could not be implemented or completed.		\$80
3. Total	4	\$885
E. Recommendations needing final action at the end of the period.	1	\$235



FY2004 OFFICE OF INSPECTOR GENERAL REPORTS: SBA PERFORMANCE CROSSWALK

The following is a compilation of summaries of selected Office of Inspector General (OIG) reports published in FY2004 as they relate to SBA's Long-Term strategic objectives. These reports can be found at <http://www.sba.gov/ig/igreadingroom.html>

A compendium of summaries of these reports can be found in Appendix 2.

Selected OIG Reports Published in FY2004			
Number	Issue Date	Title	Crosswalk to SBA Long Term Objectives
4-03	17-Dec-03	Cosponsorship Activities - Los Angeles District Office	2.3
4-05	30-Dec-03	SBA's Federal and State Technology Partnership (FAST) Program	2.2
4-07	20-Jan-04	Audit of Puerto Rico & U.S. VI District Office Cosponsored and SBA-Sponsored Activities	2.3
4-09	26-Jan-04	Review of SBA Purchase Cards	4.3
4-09	30-Jan-04	Audit of SBA's FY2003 Financial Statements	4.3
4-11	3-Feb-04	Agreed -upon Procedures Report on SBA's Federal Agencies' Centralized Trial-Balance System (FACTS) Data	4.3
4-14	2-Mar-04	Enforcement of SBA's IT-EA During the DCMS Project	3.1 & 4.4
4-15	9-Mar-04	SACS/MEDCOR: Ineffective and Inefficient	2.3
4-16	17-Mar-04	SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders	4.1
4-17	23-Mar-04	Audit of SBA's FY2003 Financial Statements Management Letter	4.3
4-18	5-Apr-04	SBA's Loan Application Tracking System	4.3
4-19	29-Apr-04	Information System Controls for FY2003	4.4
4-20	18-May-04	Small Business Set-Aside Contract to Measurement Instruments, Inc.	1.6
4-21		The SBIC Program At Significant Risk for Losses Report	2.1 & 4.3
4-22	1-Jun-04	Survey of Business Development Provided by the 8(a) Business Development Program	2.3
4-31	7/19/04	Latino Coalition	2.3
4-34	7/29/04	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	4.3
4-37	8/11/04	Memo Report-Risk Management	2.1 & 2.2
4-39	8/31/04	Advisory Rpt-Herndon Purchase Center	4.1
4-41	9/10/04	Audit of SBA General Support Systems	4.4
4-42	9/10/04	Audit of SBA's Email System	4.4
4-44	9/24/04	Summary Audit of SBA Sponsored Events.	2.3



ANALYSIS OF FINANCIAL RESULTS

This is the fourteenth year that the Small Business Administration (SBA) has issued audited Agency-wide financial statements. These financial statements have been prepared in accordance with guidance issued by the Office of Management and Budget (OMB) pursuant to the Chief Financial Officers (CFO) Act of 1990. The Introduction to the Financial Statements and the Notes to the Financial Statements in this report provide more information on the SBA's financial results and the preparation of the financial statements.

Background

The SBA is the smallest of the major Federal credit agencies, behind the Department of Agriculture, Department of Education, the Department of Housing and Urban Development and the Department of Veterans Affairs. The SBA's portfolio includes approximately \$60 billion of loan guarantees and defaulted loan guarantees, as well as loans made directly to the victims of natural disasters and in the Agency's MicroLoan and SBIC direct lending programs.

The SBA's assets and liabilities are mostly the result of its credit program activities, including: fund balances with Treasury, credit program receivables, liabilities for loan guarantees, Treasury debt and other asset and liability accounts. The SBA's loans and guarantees are financed by a combination of two sources: one for the Long-Term cost of the loan and another for the remaining non-subsidized portion of the loan. Congress provides appropriations to cover the estimated long term costs of SBA loans, which are defined as the net present value of the estimated cash outflows and inflows associated with the loans. The remaining portion of each direct loan that does not represent Long-Term cost is financed under a permanent indefinite borrowing authority to borrow funds from the U.S. Department of the Treasury. For loan guarantees, the amount provided to SBA for the cost of the loan accumulates interest until the funds

are needed to purchase defaulted guarantees or to pay liquidation expenses. Additional funds may be borrowed from Treasury for defaulted loan expenditures that will be repaid from liquidation recoveries.

Credit program receivables for SBA are comprised primarily of the following loan and guarantee programs:

- (1) Business Guarantees including 7(a), 504 Development Company and SBIC debentures and participating securities;
- (2) Business Direct including Microloans and SBIC direct debentures and preferred stock; and
- (3) Disaster Direct loans to help businesses and homeowners recover from natural disasters.

Direct loans are accounted for as credit program receivables at the time they are disbursed. Defaulted SBA guarantees become loan receivables when they are purchased by the Agency. For loans obligated prior to October 1, 1991, loan receivables are adjusted by an allowance for estimated uncollectible amounts. For Credit Reform loans obligated on or after October 1, 1991, the loan receivables are adjusted by an allowance equal to the present value of the subsidy costs (due to the estimated delinquencies and defaults net of recoveries, the offset from fees, the interest rate differential between the loans and Treasury borrowing, and other estimated cash flows) associated with these loans. This allowance is re-estimated on an annual basis.

Financial Statement Results

Total SBA's assets of \$10.6 billion at FY2004 year end include essentially:

- \$ 7.1 billion – cash reserves at Treasury to finance the SBA's credit programs
- \$ 3.5 billion – direct loans and defaulted guarantees
- \$10.6 billion.



Total assets increased \$4.2 billion from fiscal yearend FY2003, as a result of \$3.5 billion of additional funds for re-estimates and additional Treasury borrowings to fund the increased costs of the business and disaster credit programs. The future trend of SBA's total assets will depend on the net effects of new loan receivables, including defaulted guarantees and SBIC advances, as well as the additional appropriations and borrowings required to fund the cost of the business and disaster loan programs.

Total Liabilities of \$12.1 billion at FY2004 year end include essentially:

- \$ 8.6 billion – Debt and payables to Treasury
- \$.9 billion – Payable to Treasury for loan liquidation and cost re-estimates
- \$ 2.5 billion – Liabilities for loan guarantees (credit subsidy)
- \$ 0.1 billion – Benefits and other payables
- \$12.1 billion

Total liabilities at the FY2004 were up \$1.7 billion from the previous year as the result of the combined effects of a \$1.9 billion increase in Treasury borrowings along with a \$.2 billion decrease in payables to Treasury and other payables.

Net Position of \$(1.6) billion at FY2004 yearend included:

- \$.5 billion – unexpended appropriations
- \$ (2.1) billion – cumulative results of operations
- \$ (1.6) billion

The change in net position from FY2003 was a \$2.5 billion increase due to an increase in the cumulative results of operations.

Analysis of Major Balances

The major financials statement balances are discussed below. Additional detail is available in the Introduction to the Financial Statements and the Notes to the Financial Statements in this report

SBA's *fund balances with Treasury* primarily support the SBA's credit programs. The SBA does not conduct treasury operations. Cash receipts and disbursements are processed by the U.S. Department of the Treasury. Fund balances with Treasury are comprised of appropriated funds, Treasury borrowings and receipts from SBA credit program operation. SBA's fund balances are available to pay current liabilities on loan receivables and to make new loans and purchase guarantee defaults, and for the servicing and liquidation of these new receivables. During FY2004, the fund balance in Treasury increased from \$2.8 billion to \$7.1 billion as a result of the receipt of \$3.6 billion of appropriations and a \$.7 billion net increase from other factors.

Credit Program Receivables decreased \$.1 billion during FY2004 (\$3.5 billion to \$3.4 billion.) Loan receivables include defaulted guaranteed loans to be liquidated by the SBA and Disaster loans, along with a loss allowance. Although SBA's loan receivables outstanding increased \$1.0B to \$7.0B during FY2004, an increase in the estimated costs of credit programs resulted in the \$.1 billion decrease in net receivables. Advances of interest to the holders of SBIC securities are also included in credit program receivables (\$.6 billion in FY2004 and \$.5 billion in FY2003.) FY2003 credit program receivables were restated in this report to include the increase in the estimated costs of credit programs for prior years and this decreased the FY2003 balance from \$4.3 billion previously reported to \$3.5 billion in this report.

Debt owed to Treasury is the largest *intra-governmental liability* on the SBA's Balance Sheet and detail on this item is provided in footnote 10. The unsubsidized portions of SBA's Disaster and other direct loans are financed by Treasury borrowings, and borrowings are also sometimes required to finance the purchase of defaulted guaranteed loans. During FY2004, Treasury debt increased from \$6.7 billion to \$8.6 billion to finance the SBA's credit programs activity. SBA periodically analyzes its borrowings to return unneeded funds to Treasury.



Liabilities for Loan Guarantees at \$2.5 billion are most of SBA's liabilities to the public. This is the estimated cost of SBA's guarantees outstanding for Federal Credit Reform loans made on or after October 1, 1991, plus the liability for the loans made prior to October 1, 1991. The cost of SBA's guarantee programs under Federal Credit Reform is estimated initially and re-estimated annually. It depends on the operation of the programs, economic conditions, interest rates and offsetting fees collected. This amount will grow with the portfolio and increase or decrease depending on the aforementioned cost factors.

SBA's Financial Management System

SBA's core financial system is made up of three primary components, the Oracle based administrative accounting system, the mainframe-based loan accounting sys-

tem, and the consolidated general ledger system which is built in Sybase. These three systems, combined with their smaller ancillary components and the subsidy modeling infrastructure, make up the information systems critical to the Agency's financial management, reporting, and control processes. This year, SBA is embarking on a broader effort to investigate options for modernizing the loan accounting system. The OCFO will be fully involved in that process. During FY2004 SBA completed the planning and test-work to upgrade to the latest version of Oracle's administrative accounting system. The conversion to Oracle 11i was completed at the start of FY2005. It was unchanged from FY2003 as a result of increase guarantees and re-estimate of the credit subsidy cost for guaranteed loans.